

JPRS-CAR-89-005  
13 JANUARY 1989



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# ***JPRS Report***

# **China**

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NATIONAL TECHNICAL INFORMATION SERVICE  
SPRINGFIELD, VA. 22161

19980515 221

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# China

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### Behind-the-Scene Maneuvers in Delay of Price Decontrol

40060165 Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 11, 1 Nov 88 pp 21-22

[Article by Chi Hsin 7871 6580: "Behind-the-Scene Maneuvers in Stopping the Price Reform"]

[Text] *Forcing through price barrier is an arbitrary decision adopted by Deng Xiaoping at Li Tieying's suggestion. Afraid of getting into trouble at the Beidaihe meeting, everyone finally agreed to let Zhao Ziyang and Li Peng claim major and minor responsibility respectively. Smelling a rat after returning to Beijing, Zhao called Li and Yao to his home and suggested that price decontrol be put off temporarily. Finally, they had to ask the elder statesman Bo Yibo to persuade Deng to change his mind by saying that slowing down is everybody's opinion.*

On 30 September, Beijing released the Communiqué of the third plenary session of the 13th CPC Central Committee. This communiqué indicates that after 5 months of confusion, the attempt to "force through" the barrier of prices backed by Deng Xiaoping has finally stopped and come to an end for the time being. It concludes that everything will be basically the same as it was before and prices continue to be controlled.

Such a result of the third plenary session of the 13th CPC Central Committee is not unexpected to those who follow mainland China's situation closely because 1 month ago, the 20th standing committee meeting of the State Council, which was held on 30 August, already adopted the resolution to stop price reform. What the third plenary session did was merely moving one step further back from this point.

What is noteworthy is what really happened among mainland China's high-ranking leaders during the two weeks between the 10th politburo meeting, which concluded on 17 August, and the State Council's standing committee meeting, which was held on 30 August.

### The Third Plenary Session Moves One Step Further Back

During May and June, Deng Xiaoping repeatedly mentioned during his conversations with foreigners the need to take risk and "force through" the price barrier. As Deng Xiaoping vigorously advocated the open policy, the ninth politburo meeting relayed, at the end of May, the central government's resolution to "force through" the price barrier. In spite of the debate between radical and conservative plans at the Beidaihe meeting, the 10th politburo meeting finally passed on 17 August the "Tentative Plan for Price and Wage Reforms," stating that the prices of the overwhelming majority of commodities should be decontrolled and subjected to market regulation in 5 years' time except for the prices of limited commodities and labor which should be controlled by the State Council.

Thirteen days later, the State Council's standing committee meeting explained that the goal "that the overwhelming majority of commodities should be decontrolled," which was set forth by the 10th politburo meeting, is to be achieved in the next 5 or more years, not now. It also suggested that no new price reform measures be adopted in the second half of 1988 and demanded that the price increase of 1989 be substantially lower than that of 1988.

The third plenary session of the 13th CPC Central Committee, which was held at the end of September, moved one step further back. The third plenary session was supposed to emphatically discuss the "Tentative Plan for Wage and Price Reforms," which was adopted by the 10th politburo meeting, but it turned it into a secondary issue and added new conditions to its implementation, that is: "In accordance with the demand that price increase be strictly controlled and in consideration of the possibility of actual conditions in all fields, the State Council should gradually and safely organize forces to implement the plan in the next 5 or more years." In other words, it not only permitted the "tentative 5-year price decontrol plan," which is large step backward compared to the radical plan, to be implemented in a period longer, not shorter, than 5 years but also demanded that it be implemented only under the condition that "price increase is strictly controlled" and "the possibility of actual conditions in all fields is considered." It is likely that price decontrol will be put off or shelved for the time being if prices skyrocket as soon as they are decontrolled like they did this year.

The focus of discussion at the third plenary session of the 13th CPC Central Committee was "improving the economic environment" and "rectifying the economic order," and these two problems were caused to a certain extent by price decontrol. For instance, the third plenary session of the 13th CPC Central Committee pointed out that the key to "improve the economic environment" is to "reduce aggregate social demand and check inflation" and that the key to "rectifying economic order" is to "rectify various disorders in current economic life, especially the sphere of circulation."

Inflation and various disorders in the sphere of circulation did not, of course, appear after the prices of many commodities were decontrolled this year. However, the decontrol stimulated the prices of many commodities to rise even higher and faster and caused the phenomenon of official racketeering, in which officials, who control the sources of commodities, directly and indirectly take commodities to the market to be resold for profits, to spread unchecked, resulting in seething popular discontent. These problems did not become a crisis until after May. Therefore, the two focuses of work—"improving" and "rectifying"—for 1989 and 1990 adopted at the third plenary session of the 13th CPC Central Committee are aimed mainly at the phenomena of price increases and official racketeering and the aftereffects resulting from the price decontrol. They may be called



measures adopted to clean up after the price decontrol. Because of this, the third plenary session of the 13th CPC Central Committee repeatedly emphasized the need to focus on "curbing inflation" and "strictly controlling price increases." Of course, it is inevitable for "next year's price reform to take a smaller stride."

#### **The Inside Story of High-Ranking Power Maneuvers**

After comparing the Communiqué of the third plenary session of the 13th CPC Central Committee with Deng Xiaoping's conversations with foreigners in May and June and the ninth Politburo meeting at the end of May, we can see that it is an obvious fact that mainland China has backed out of the price reform. Is this a change of policy caused by power struggle or is it a change of power and position caused by the erroneous decisions of persons in power? The general opinion is that the liberal Zhao Ziyang is defeated by the conservatives Li Peng and Yao Yilin because the price decontrol vigorously advocated by Zhao Ziyang has resulted in very bad social results.

One month ago, I too had such an opinion and labelled Deng Xiaoping and Zhao Ziyang as radicals and Li Peng and Yao Yilin as conservatives. The radicals' defeat at the Beidaihe meeting was caused exactly by the social effect of price decontrol. This view, I think, is still basically true as of today, but due to some important information I acquired recently, I cannot but make a slight correction to this view.

According to the source of the information, bravely forcing through the barrier of price decontrol in spite of all the risks and sacrifices is Deng Xiaoping's idea, which is adopted mainly at Li Tieying's suggestion. As for the relationship between Deng Xiaoping and Li Tieying, there are different rumors in the circle of high-ranking officials in Beijing, including the one about blood relationship. Nevertheless, it is a fact that Li Tieying rose quickly to power and is very close to Deng Xiaoping.

Since it was Deng Xiaoping's idea and since the respected one wanted to force it, everybody else had no choice but to follow. Because Deng Xiaoping is Zhao Ziyang's major power base, Zhao Ziyang can only follow Deng's instruction and say "storm fortifications." But Zhao himself and his think tank do not believe so.

At the Beidaihe meeting, in spite of the heated debate, everybody was actually afraid that they may get into trouble, that the price issue may cause social upheaval, and that they may be unjustly blamed and held responsible instead of insisting on their own opinions and trying to convince the others. The final agreement was dividing responsibilities with Zhao Ziyang responsible for major decisions and Li Peng for concrete implementation. The 10th Politburo meeting in Beidaihe still decided that "the prices of the overwhelming majority of commodities be decontrolled" because it was Deng

Xiaoping's idea and decision and everybody was only allowed to make suggestions within the range of his decision to try to reduce risks.

After returning to Beijing, Zhao Ziyang found things were turning against him, so he invited Li Peng and Yao Yilin to his house to discuss this issue. Zhao said he thinks the price decontrol should wait, and Li and Yao both agreed.

Zhao Ziyang then invited the elder statesman Bo Yibo to the discussion and asked him to persuade Deng. Since Bo and Deng are in the same generation, it is easier for Bo to talk to Deng. After listening to Zhao's opinion, he went to tell Deng that delaying the price decontrol was everybody's opinion. Deng thus changed his mind and no longer insists. Because of this, the whole policy turned all the way around in less than 1 week after the Beidaihe Meeting decided to continue to decontrol prices.

The above is the power maneuver of high-ranking CPC officials between the 10th politburo meeting on 17 August and the 20th standing committee meeting of the State Council on 30 August.

Judged from the above situation, Zhao Ziyang has not lost his power; nor has he become a figurehead. Deng Xiaoping still supports him and Deng's remark "I do not protect anyone" refers to incompetent factory managers, not Zhao.

#### **Power Relations Among Deng, Zhao, and Li**

The above source of information is fairly reliable. According to this information, we understand that when Zhao Ziyang said he is only responsible for large decisions, he did not necessarily mean that he had lost some power. Instead, he tried to reduce his responsibility when facing such a risky issue as price reform. Since large policy decisions should be discussed and adopted at meetings and approved by Deng Xiaoping, Zhao's personal political risks can be reduced.

Meanwhile, Li Peng told foreign reporters that "the recent policy on curbing inflation and reducing consumption was adopted under Zhao Ziyang's guidance." The decision of the third plenary session of the 13th CPC Central Committee on strengthening the party's leadership also reflects the common understanding that Zhao and Li share the responsibility in the risky price reform. Zhao said he "does not deal directly with economic affairs" and Li said major policy decisions were made under Zhao's guidance. This is a coordinating practice in the grim situation.

During a meeting with Japanese guests in mid September, Deng Xiaoping said "the current inflation in China does not have that much to do with price reform; it is a problem caused mainly by poor management and it is because the relation between aggregate demand and supply is not properly handled and perfected." This is an

excuse used by the patriarch to exonerate himself after being persuaded to countermand an order (no longer insists on continuing the price decontrol).

In conclusion, we can see that in the process of this political power maneuver, the tradition of giving priority to seniority is still deep-rooted in the CPC's power structure. First of all, the whole thing was basically Deng Xiaoping's own idea. Although his original intention was good (forcing mainland China to break through its old pricing system), due to a lack of investigation and research, discussion with other people, understanding of the experiences of other countries which had decontrolled prices under the public ownership system, and especially theoretical studies, prices were decontrolled according to his order. At the ninth politburo meeting, instead of discussing it with other leading cadres, he adopted the practice of relaying "the guidelines of the central government." Other leaders had no choice but executed his order though they disagreed.

Second, when Zhao, Li, and Yao have different opinions, they cannot talk to Deng directly. Even in Zhao's position, he still needed to find a retired person, whose qualifications were similar to Deng's and who would not be mistaken for attempting to replace Deng, such as Bo Yibo, to talk to Deng, and this person had to say that it

was everybody's opinion. This shows that the relation between the patriarch and other leaders is "I issue orders and you risk your life for them."

Third, the difference of seniority seems to exist also between Zhao Ziyang and Li Peng. Li Peng obviously had different opinions on the price reform, but he never said anything until Zhao invited him first to his house and told him that he wanted to delay the price decontrol. That major policies are adopted by Zhao and implemented by Li is apparently also Zhao's idea. Under this tradition of family politics, if Li Peng attempted to make Zhao a figurehead, he himself probably would fall apart first.

In the past 5 months, mainland China's price reform changed from decontrol to containment and left the "economic environment" to be cleaned up and the "economic order" to be rectified. On the one hand, it shows that it is very difficult to decontrol prices under the socialist public ownership system and that complex issues of economic theory need to be studied; and on the other hand, it makes us realize during the course from decontrol to containment that the political power structure of mainland China is the exact bottleneck that restricts the development of a diversified and a market economy.

## NATIONAL AFFAIRS, POLICY

**Vice Minister Gao Quoted on Pricing Reform**  
*AU2311100688 Duesseldorf HANDELSBLATT*  
*in German 23 Nov 88 p 12*

[Christoph Rabe: "The Pricing Reform Has to Be Given a Solid Basis"]

[Text] Duesseldorf, 22 November—China has prescribed itself an economic emergency program. Skyrocketing inflation, high money supply growth, and an economic development that is constantly in danger of overheating have forced Beijing to cut down on investments, delay market experiments, and forcing the economy into a corset of austerity through strict administrative control.

In a talk with HANDELSBLATT, Gao Shangquan, vice minister of the State Restructuring of the Economic System Commission in Beijing, tries to put the current situation into the correct light. "The changes in the economic environment and the tightening of the economic order," as it is called in official Chinese terminology, "are aimed at implementing reform measures even better." The direction and goals of Beijing's reform policy will not be changed; the program of consolidation itself is to be interpreted as part of the reform so that "market processes work better" and enterprises can adjust to the requirements of the market more smoothly.

In the view of Gao, one of the mentors of the Chinese economic reform, the distortions of the economic structure and the measures subsequently decided by the Chinese Government reflect the "problems which have emerged during progress," they cannot, however, be interpreted as meaning that the reform, in its current form, has failed. On the contrary: Over the past 10 years a number of outstanding successes have been achieved.

After Zhao Ziyang's resignation as Commission head and the appointment of Li Peng as the new first man, Gao, who has been working on the Commission since 1982 and since 1985 has been vice minister of an authority that is considered the "think tank" of reform, has had to suffer a cooler political wind in his house. Even though he—like other Chinese politicians, too—does not want to know anything about differences between reformist party chief Zhao and the more cautious head of government Li, his assessment implies that there are certainly differing views on the topic of speed of reforms. "After the last party sessions," Gao says confidently, "the opinions now concur."

The fact that previously this was not so was all over town in Beijing. Only when party chief Zhao Ziyang had embarked upon the government course in his speech of 26 September, which was published late, was it possible to at least mask the differences. "We have learned from experience," Gao Shangquan says, "that we should act according to the letter of the decisions."

However, even today there are still diverging views, for instance on the pricing reform. "Some think that the system of dual prices should be given up quickly. We, however, think that they cannot be eliminated so quickly." Gao admits that Beijing has clearly climbed down with regard to the pricing reform. However, he did not want to bindingly commit himself to saying how long it will be shelved. Despite slowing down the speed, the goal remains untouched: In the future the enterprises are to be able to fix the prices of their products independently and are to be guided as economic organs via market prices. Only where enterprises set monopoly prices does the state intend not to give control away.

However: "The pricing reform still needs complementing measures. It cannot be implemented alone." Gao hopes to get support from monetary, financial, and, above all, industrial policy. "Without a reform of enterprises, the pricing reform does not have a basis." Quite a lot has been done in this respect: The enterprises' own responsibility has been introduced in management, enterprises are permitted to merge or to establish stockholding companies. This points the way to the right direction.

Gao explains the defects of the accompanying measures by talking about "indirect control": "The effects of macroeconomic instruments in a goods economy are totally new for us." The "tightening of the economy" must be parallel to expanding these instruments, Gao demands. In other words: The fine-tuning of the economy has failed to date, the enterprises have used their newly won leeway for decisions much too unreservedly without taking into consideration national economic concerns. Now it is not only them that have to be held back. The price is high: Fixed investments are to be limited and money supply and expenditures for consumer goods are to be strictly controlled.

### Economist Examines Different Philosophies of Reform

40060154 Beijing JINGJIXUE DONGTAI  
[ECONOMICS DYNAMICS] in Chinese  
No 11, 5 Nov 88 pp 1-4

[Article by Guo Jingang 6753 2516 0474: "Coordinated Measures To Intensify Reform"]

[Text]

### I. Choosing a Reform Philosophy

Today it is both extremely urgent and important that we choose a correct reform philosophy and formulate a comprehensive coordinated reform plan to unshackle reform from the dual systems and make a successful transition to the new system. However, since members of the public differ considerably in the goals of mid-term reform and their analyses and appraisal of the current situation, there is no consensus on how to intensify reform. We can classify the various reform philosophies

into three main groups: 1) a reform philosophy centered on price reform and the establishment of market mechanisms to promote competition on an equal footing; 2) a reform philosophy based on defining property rights relations and intensifying the reform of enterprise operating mechanisms; and 3) a reform philosophy that says we should pay equal attention to enterprise mechanisms, market mechanisms, and indirect macroeconomic mechanisms and reform in a coordinated way in stages.

According to the first group of reform philosophies, the central issue in economic structural reform is the rational allocation and effective utilization of limited resources. To solve this problem effectively, we must establish without delay market mechanisms that send out accurate signals, that have clearly defined rules, and that are organized and orderly. Thus, it is argued, reform must revolve around price reform, accompanied by related reforms in finance, taxation, banking, and investment. Only a prompt effort to eliminate the numerous maladies that occur when old and new institutions coexist would the transition from the old to the new make dramatic progress. However, most comrades who hold this philosophy ignore one basic fact, namely that in almost all socialist nations that have traveled down the road of economic reform, the "revival of price ratios" was a common phenomenon before fundamental changes occurred in enterprise operating mechanisms, however wonderful the price reform plan might have been. As a result, reform was either stalled or became trapped in a vicious circle, a "Bermuda triangle" of prices, taxes, and wages.

The second reform philosophy zeroes in on one strategic point—our failure to straighten out enterprise operating mechanisms, which is what has caused the dual explosion in investment and consumption in China today. Thus it puts the reform of enterprise mechanisms at the heart of coordinated reform in the hope that by remolding the microeconomic operating mechanisms, we can then activate the intrinsic vitality of enterprises and enable them to respond accurately and promptly to signals sent out by the external environment. Once this is accomplished, we can proceed onto price and wage reforms and remove the last stumbling block to the total replacement of the old system by the new system. But this reform philosophy faces a grim challenge in the form of a distorted price system and a market of elements of production that is far from complete. At a time when the indirect regulatory and control medium—the market—has not taken shape completely or been perfected, it is almost wishful thinking to try to steer microeconomic activities into the orbit of balanced macroeconomic growth through state regulation of the market and through market guidance of enterprises. Inevitably the state would end up resorting to some irregular tools to guide and regulate enterprise behavior, thus totally undoing or crippling the various enterprise-mechanisms reforms already introduced aimed at separating government from enterprises, giving enterprises operating authority, and holding them responsible for their own profits and losses.

The third group of philosophies can be described as an answer to the inherent weaknesses of the two philosophies above. In implementation procedures and transitional methods, it can actually be divided into two subgroups of philosophies. The first subgroup consists of a dual system in terms of time. That is, during a given period of time, enterprises, the market, and regulatory mechanisms all maintain the dual system. The changeover from the old to the new systems is to be effected through endless piecemeal, coordinated, and incremental adjustments. That way, a big trauma is broken down into small traumas. The second subgroup is a dual system in terms of space. That is, some localities assume the lead in implementing the market reform strategy while others take no action for the time being. When the experimental areas have achieved progress of a breakthrough nature and provide an experience that can be replicated elsewhere, then the reform would be launched on a national scope to bring about the transition from old to new.

While the two subgroups of philosophy accommodate such national characteristics as a vast territory, a huge population, and extreme unevenness in socioeconomic development up to a point, they come with their own built-in weaknesses, which are self-evident. When the old and new systems remain in a state of confrontation for an extended period of time, their mutual conflicts and internal consumption will be exacerbated, thereby creating all kinds of unfavorable conditions and doing major harm to the normal operations and healthy development of the national economy as a whole. Even now we have not yet found a miracle cure for the myriad problems brought on by the double-tracking system. It seems that the problems can be corrected fundamentally only when the double-track system itself is eliminated.

Today structural economic reform in China has reached a critical stage. From every angle, wage and price reforms are urgent and cannot be sidestepped. However, whether or not such reforms can be launched successfully and pay off as expected depends on a substantial improvement in the profitability of enterprises and the operating efficiency of the overall economy. Otherwise, any reform blueprint, however well designed and comprehensive, may "miscarry" midway or produce half the result with twice the effort. The low profitability of Chinese enterprises and the inefficiency of the national economy are the accumulative products of the traditional system that had prevailed for decades and the double-track system of the last 10 years. Therefore, it would be unrealistic to expect to turn this situation around with a few bold, decisive strokes. At the same time, the practice of reform has awakened us to the infeasibility of the "groping-in-the-dark" approach toward bringing about the transition.

Based on the underlying idea of reforming enterprises, the market, and the macroeconomic management system in a coordinated way at the same time in stages, it may be



more effective to tailor measures to suit different industries and combine reform policies with development policies organically for the following reasons:

A. Because industries differ in their market size, production technical conditions, and the nature of their products, some industries may be slower than others in forming the main elements of competition, the market structure, the rules of market operations, and indirect regulatory mechanisms, and in utilizing or deploying them. Hence the case for industry-by-industry coordinated reform. That is, sectors and industries where the three preconditions for the normal operation of market mechanisms are more readily satisfied, for example, textiles, apparel, light industry, food, paper-making, and printing, should be the first to launch extensive coordinated reforms in the enterprise system and market system so that the market in those sectors and industries can really reward the efficient and weed out the inefficient and allocate resources optimally.<sup>1</sup> That way, not only the profitability of individual enterprises in the sectors and industries involved will improve, but the efficiency of resource allocation and the operation of the entire industry will also go up substantially. As for the energy and raw materials industries, where the preconditions for the normal regulating functioning of market mechanisms cannot be met as readily, we can pave the way for it through tax and financial policies and with some regular administrative rules and methods as required. In the area of enterprise operating mechanisms, for instance, we can first try contracting as a transitional measure before moving onto the shareholding system. As for price management, we can first allow prices to float before deregulating them so that the transition in these industries will come about gradually.

B. Different parts of China have different levels of production capability. Natural resources too are distributed unevenly throughout the nation. As a result, the same industry may be much more important in one area than in another. Industries like food, textiles, apparel, light industry, machinery, and electronics are crucial in the coastal processing region, while agriculture, coal, oil, power generation, chemical industry, and metallurgy are more important in the resource-rich interior. Because processing industries account for a big chunk of the economy in the coastal region, the region should grasp the opportunity when the conditions are ripe to adopt a sweeping reform strategy to make the new system the dominant system that forms the basic economic framework of the region as soon as possible. Then it can target changes in the international economic situation; perfect the enterprise operating mechanisms, market mechanism, and indirect regulatory and control mechanisms; create an investment climate capable of attracting substantial amounts of foreign capital; build up "the three forms of processing and compensation trade" vigorously; encourage the regional economy to take the initiative to participate in the international economic exchange and competition; make more use of foreign

resources and markets; and work hard to develop an export-oriented economy, in the process setting the stage for the implementation of a new development strategy.

C. The new method of transition can ensure that the state will establish different new indirect regulatory systems for different industries depending on their own characteristics, thereby laying a firm foundation for preventing a continuous deterioration in the industrial structure and ensuring at the macro-level the implementation of the national industrial policy. What is more, in a huge country like China with an enormous population, regions differ significantly in their resources and level of socioeconomic development. With the new transitional method, we can use the new indirect regulatory system of industrial development to reconcile economic conflicts between resource-rich regions and processing regions, thus ensuring at the macro-level that different regions would establish their own industrial structures based on their respective comparative advantage before the formation of a unified national market. Such structures would each have their own characteristics, follow clear lines of specialization, and make economic sense.

## II. The Basic Framework and Main Ideas of the New Philosophy

A. *Reforming Enterprise Operating Mechanisms.* 1. Metallurgy, power generation, non-ferrous metals, oil, chemicals, coal-mining, and other heavy industries. They should continue to carry out and perfect the reform of enterprise operating mechanisms centered on a variety of management systems of contracted responsibility. The specific measures of reform intensification are: 1) Introduce bidding, including the invitation and submission of bids, to the selection of operators to give the competitive mechanism an ever bigger role in enterprise contracting. 2) Further improve the system whereby enterprises are held responsible for their own profits and losses. At the heart of the system are rewards and punishments that are really enforced. The enterprise which completes a contract must be allowed to retain profits and the enterprise director and employees must be rewarded. An enterprise that fails to fulfill a contract must be strictly punished in accordance with regulations. Assets derived from profits retained by an enterprise during the contract period must be kept in a separate account for management purposes. These assets should constitute a fund to help the enterprise maintain responsibility for its own profits and losses. 3) Within the enterprise, a variety of scientific management methods consistent with the current state of the enterprise must be popularized and deployed to further explore the methods of and approaches toward intensive operation.

- 2. Food, textiles, light industry, building materials, machinery, electronics, and other industries. Taking advantage of a diversified ownership structure, we should introduce and perfect a shareholding system to

reform the enterprise operating mechanisms. Specifically, we should: 1) Define clearly the enterprise's property rights relationships. Enterprises of different ownership systems and operating on different scales should introduce the shareholding system in different ways. Profits should be separate from taxes, and dividends should be distributed in proportion to the number of shares a shareholder owns. The next step would be to straighten out the distribution relations between state and enterprise and between the collective and the individual, and strengthen the budget restraints of the enterprise. 2) Establish a manager (factory director) responsibility system under the leadership of the board of directors. Self-restraining and self-stimulating operating mechanisms should be created through the personification of property rights and the diversification of majority interests. 3) Make more frequent use of takeover and bankruptcy to motivate and pressure enterprises both internally and externally to develop themselves.

3. In agriculture, we must begin by firmly establishing the collective ownership of land. Next we can transform the contract into a land lease agreement under the law specifying the peasant household's right to occupy and use the land in question during the duration of the agreement. The transfer of the land lease agreement on the market should be allowed, as should land use rights. That will bring about the appropriate centralization of land and the formation of the mechanisms of intensive operation. A highly social and commercial agricultural production system should be established.

**B. Coordinated Reforms in the Market System.** 1. Price reform. A floating price policy, including a price ceiling, should be applied to the major products of industries like metallurgy, power, oil, chemicals, and non-ferrous metals. Under this policy, the state is to publish price ceilings for the appropriate products at regular intervals based on the supply-demand situation on the energy and raw materials markets. A totally deregulated market price system should be applied to such industries as food, textiles, light industry, and building materials in order to fully utilize the price mechanism in balancing supply with demand and allocating resources rationally. Price deregulation should be applied to a majority of the products of the machinery and electronic industries. For the remaining small number of products, a minimum price and a maximum price should be set. As for agricultural products, we should continue to improve the dual price system that replaces hidden subsidies with open subsidies so that there are stable supply sources for agricultural products within the contract while the production level and mix of products outside the contract should be set by the law of value and the supply and demand relationship on the market.

2. Fund markets. In the energy and raw materials industries, a bond market should be set up in a selective way to nurture those industries and help them develop through the issue of key construction bonds and major enterprise bonds. In the textile, food, light, and building

materials industries, the establishment of a bond market and stock market should be accompanied by the creation of an auction market for enterprise property rights so that enterprises in different areas and industries can establish close horizontal links through competition even though they follow different ownership systems and operate on different scales. Also, the enterprise takeover and bankruptcy mechanism should be more extensively used. In the electrical machinery industry, we may allow leading individual enterprises to put their stocks directly for sale on the market. As for the other enterprises, there should be restrictions on free trading. In other words, while we deregulate the primary long-term fund market, we should impose suitable restrictions on the secondary long-term fund market. In the countryside, we should strongly foster the formation of a fund market characterized mainly by cooperative banking institutions. With interest rates deregulated, similar banking institutions should be allowed to compete on an equal footing in order to expedite the optimization of the fund structure.

3. Foreign exchange market. A two-pronged policy combining appropriate increases in the exchange rate and a crackdown on black-market foreign exchange activities should be adopted. The openness of the foreign exchange market should be increased. Regional and industry-based foreign exchange regulating centers should be set up to introduce a reasonable degree of centralization to the utilization of foreign exchange and improve the efficiency of such utilization.

4. Labor market. In every single industry, we must first establish a labor market as soon as possible to promote the free circulation of workers with simple skills. In particular, we must facilitate the circulation of the urban and rural labor forces to check the rapid rises in labor costs. Second, we must establish a senior labor market that would enable managers and technical personnel, people who provide complex labor, to circulate freely in the interest of continuous improvement in the allocation of senior qualified personnel.

**C. Coordinated Reform in the Macroeconomic Management System** 1. Taxes. We should start levying a land tax without delay in order to channel to the central treasury and local coffers the differential land value between parcels of land in different parts of the country. This would be the most effective means of preventing the market of the elements of production from tilting from west to east under the new economic system. Large and mid-sized enterprises in the energy and raw materials industries that have adopted the management system of contracted responsibility should be required to pay a resource tax and a fixed assets appropriation tax to set the stage for the transition of the contract system from an irregular to a regular basis. In the food, textile, light, and building materials industries, the export enterprise product tax, sales tax, and value-added tax should be refunded to the enterprises in whole or in part so as to encourage them to export and earn foreign exchange. In the electric machinery industry, a consumption tax



should be imposed on upscale and trendy products to dampen consumption demand. Different tax rates should be applied to enterprises that have already adopted the shareholding system, depending on the share of after-tax profits devoted to production development. If the enterprise plows most of its after-tax profits back into production development, its tax rate may be reduced by a suitable margin. Conversely, if it uses such profits to increase dividends and bonuses, its tax rate may be higher. The product tax on agricultural products should be decreased as appropriate. Alternatively, we may increase nonagricultural taxes in the countryside in order to help the state maintain control over the production level and industrial mix in the countryside on the macro-level in the transition from the dual economy.

2. The budgetary system. After central and local jurisdictional lines are redrawn, we should redefine what goes into the budget of the central government as revenues and expenditures and what goes into the budget of a local authority as revenues and expenditures. That would take us gradually to a "separate tax system." A multiple budgeting system should be adopted under which there would be separate entries according to the different nature of an item of revenue or expenditure. For example, there should be a budget on government revenues and expenditures, a budget on capital revenues and expenditures, and a budget on social security revenues and expenditures. Debts would no longer be included in the government budget as an item of revenue in order to give a true picture of the deficit.

3. Banking. Under the traditional system, the central bank served as the banker and head cashier of the Ministry of Finance. That state of affairs must be brought to an end. The central bank should be made functionally independent. A banking law and currency issue law should be drawn up giving the National People's Congress the power to determine the general increase rate of the money supply and the amount of short-term money to be issued, thus regularizing the issue of money and making it more scientific. Specialized banks should be run like commercial concerns. A reasonable amount of competition should be allowed between specialized banks of different types to make sure that funds are channeled into the optimal direction and put to the best use.

4. Investment system. We must regularize and increase the returns on the activities of major investors at all levels of government and completely get rid of the breeding ground of "smorgasbord projects" and "fishing projects." Accordingly, key construction projects undertaken by the central and local governments should establish a scientific and rigorous project bidding and investment responsibility system that can really be held responsible for utilizing, recovering, and increasing the returns on funds through the creation of a few inter-industry, comprehensive, and competitive national investment companies. This can be done provided that a

capital construction fund is in place, special funds are used for special projects, and there is a guaranteed stable source of funds for priority projects.

#### Footnote

1. Generally speaking, the three preconditions that must be met for the market to function normally are: 1) As the major player in the economy, the enterprise is totally separate from the government, has decision-making authority in its operations, and is responsible for its own profits and losses. Its survival and growth are determined by the market; 2) The presence of a sound, comprehensive, and competitive market; and 3) Government regulation and control of market activities is regular and peripheral.

#### Transferring Ownership to Enterprises 40060137 Beijing JINGJI CANKAO in Chinese 18 Oct 88 p 4

[Article by Zhang Zhengao 1728 2182 7559 of General Office of the NPC Standing Committee Research Center and He Dexu 0149 1795 2485 of the Chinese Academy of Social Sciences, Finance Institute: "Thoughts and Perspectives on the Transfer of Enterprise Ownership"]

[Text] Throughout China today there is a flood of enterprise ownership transfers. This is an important breakthrough not only in commodity economy theory, but also in the many serious obstacles encountered in reforming the economic system. It serves as a wedge between the mechanisms of enterprise management and the property system. It will be of the utmost importance in simultaneously coordinating further reform of enterprises with advancement of their development.

However, we must also make it perfectly clear that all enterprise transfers to date have been implemented under conditions of blurred ownership, a chaotic enterprise system, hazy knowledge of transfers, and distorted market indicators. Consequently, it is clear that enterprise ownership transfers in China are abnormal, irregular, irrational, and imperfect. These are twisted conditions for implementation.

—The blurring of enterprise ownership. In China, a people's enterprise is referred to as "owned by the whole people" and practice branch management which is based upon division by classes and departments. However, when the state has more than 20 functional departments exercising control over a property, no one can take responsibility for his own actions. So "owned by the whole people" actually means owned by no one. This means that transfers of enterprise ownership are in the end implemented under a situation where the enterprise capital itself is blurred, so that the capital in transferred enterprises is at best only that which has been somewhat modified under subordinate relationships. Transferred enterprises also do not possess their own independent

"enterprise capital," so that the transfer of ownership between state-run or collective enterprises and private enterprises is also handicapped by this blurring of ownership. Obviously, indistinct enterprise ownership hinders the formation of enterprises which are most appropriate to the development of an insolvent commodity economy—the mechanisms for takeover.

—The casual nature of price determination. The experience of the past few years has shown that the cost of ownership transfer has been based chiefly on the difference between the enterprise's debts and credits and the net value of the enterprise's property value and liquid funds as fixed by the enterprise. This leaves two problems: first, the property value and liquid funds set by the enterprise are often just the book value, and not the actual cost; second, the cost of enterprise ownership transfer as currently effected does not generally include the costs of payment for land use and the labor force. This does not make much sense. Obviously, determining the cost of ownership in this way is largely casual and subjective, because it lacks the critical factor of a market estimate.

—The administrative nature of ownership transfer. The most typical model is a "mutual pulling," in industry, departments and systems, whereby the rich look after the poor, the superior take care of the inferior and the large care for the small; moreover, those ownership transfers which fall through are often due to concerned departments having created one hindrance after another.

—The confused nature of property relationships. This is manifested first in the indecision concerning the intent and functional direction of transfer expenses. Second, the lack of clarity concerning jurisdiction over newly-acquired property. If a people's enterprise purchases another enterprise using its own funds, then the ownership of the transferred enterprise should rest in the enterprise itself. But in practice, if the transferred enterprise is itself owned by the state, then it is difficult to tell who owns the transferred enterprise. Under these conditions, if the purchasing enterprise would have managerial powers only, and not actual ownership, it will certainly influence its enthusiasm and initiative for purchasing another enterprise.

In dealing with the contradictions and predicaments related above, people have proposed various advanced ideas and countermeasures for handling the development of ownership transfers. Examples of these are fostering the enterprise market, developing a variety of ownership transfer models and pluralizing the bulk of the ownership transferred, formulating appropriate institutions and laws concerning transfers, standardizing the operation of enterprises, etc. We appreciate that these are all important and necessary, but choosing only these steps to deal with the situation would still be insufficient, as they still would not fundamentally correct the convoluted movement of enterprise ownership transfer.

So, where is the key to improving and developing enterprise ownership transfer in China? We know that it is found in the imported stock system, passing through the planning processes of appropriate organizations and systems, turning the ownership of enterprise property over to many widely-scattered stockholders, while at the same time insuring that no single stockholder can independently manipulate, control or dominate the enterprise. Specifically, an enterprise which is owned by the whole people can be reorganized, and when the stock system model is chosen, a part of the property ownership from what was originally a state monopoly can be shifted into the hands of other shareholders. An enterprise under collective ownership can also be reorganized into a stock enterprise.

After enterprises owned by the whole people or collectively have been converted to the stock system, and the property rights relationships clarified by the legal system, then the establishment and perfection of the system can begin. This will also make enterprise ownership transfers a stable microcosmic foundation for the development and growth of our commodity economy's movement process. The following will undoubtedly have important use and positive significance for the development of ownership transfer:

First, the cost of transferring property can be set equitably and rationally.

Second, international experience has shown that the dispersion and diversification of a state-owned enterprise helps to curb excessive meddling by stockholders. This will permit the enterprise to sufficiently realize its powers of initiative and principal awareness that it can determine its product management activities independently and on its own initiative.

Third, the incorporation of enterprise ownership must of necessity create two important models for the existence and movement of enterprise property: one model is through material objects, one model is through shares, such as negotiable securities, "fictitious capital." Therefore, regardless of whether an enterprise is managed well or badly, it is under heavy pressure not only from the competition of the commodity market, but more importantly it is subject to the rigorous oversight of stock market "insiders" (or stockholders) and "outsiders" (or society). "Insider" oversight is chiefly expressed in this way: if stockholders are dissatisfied with the company's management, they can divest themselves of their stock in the company, thereby jeopardizing both the company's existence and its management personnel's positions. In this way they exercise indirect control and restraint over company policy or the retention of management personnel. "Outsider" oversight is chiefly expressed in this way: if the company is poorly managed, with few profits, low dividends and slumping stock prices, or the company's latent energy has still not been maximized and its capital underestimated, then the "outsiders" can, through the

stock market, purchase the company, with the company's ownership unsuspectingly and quietly taken over. In this way, a kind of invisible pressure is placed on the company and its managers, forcing the latter to improve the company's management, and raise economic benefits.

Fourth, the incorporation of enterprise ownership provides flexible and convenient conditions for the transfer of ownership. On the one hand, when a company's value is made known through its stock prices, then purchasing stock in a company is the same as purchasing ownership. In this situation, transfer of ownership can be accomplished quickly through the stock market, unhindered by time, location and amount of property purchased. Another aspect is this is beneficial to re-transfer of enterprise ownership. The facts prove that enterprise ownership transfer is an objective requirement for development of a commodity economy, a true prerequisite for rational allocation of resources and attainment of excellence in the corporate organizational structure. In the development of a commodity economy, regular allocation of resources and revision of organizational structure are essential, and it is inevitable that there be regular and continual transfer of ownership. For ownership transfer is not something that is done but once, a final act that once it is accomplished everything is fine. Rather, transfers of ownership must accompany the development of a commodity economy. Without a doubt, the incorporation of ownership will supply the most convenient conditions for this.

**Article on Need To Curb Price Rises**  
*OW2312015788 Beijing BAN YUE TAN in Chinese*  
*No 22, 25 Nov 88 pp 8-11*

[Article by Su Bei 5685 0554: "Excessive Commodity Price Rises Must Be Curbed"]

**[Text] Excessive Commodity Price Rises, a Disturbing Warning Signal**

For several years, commodity prices have been a hot public topic.

People are disturbed and perplexed by the rising price indexes—8.8 Percent, 6.0 percent, and 7.3 percent since 1985.

Of course, they have also noticed that, despite price increases, the powerful economic growth continues, and the living standards keep improving more or less.

Since the beginning of this year, commodity prices have risen steeply. The general index of average retail prices in the first 3 quarters increased about 16 percent over last year's corresponding period, and it exceeded 20 percent in some cities. In society, there is an indication that price rises have become unbearable, showing at last a series of disturbing "warning signals."

Rapid industrial growth is causing more strains on raw and processed materials, energy, and transport, which have already been in short supply. The imbalance between money supply and demand is becoming greater daily. Economic efficiency is seriously incommensurate with growth rate.

People's daily consumption has been badly affected. According to a sample survey, the average monthly income for living expenses of urban residents' families is 87 yuan, up 18.1 percent from the 73.6 yuan in last year's corresponding period. However, the actual increase is 0.6 percent if the commodity prices are factored in, and the income of a considerable number of workers and staff members has actually decreased.

To control inflation is evidently a task which brooks no delay.

**We Must Clearly Understand That the Main Cause of Inflation Is the Grave Imbalance between Supply and Demand, Not Price Reform**

Many people tend to lump together price rises and price reform. This is a specious view.

Certainly, price reform in the last few years has indeed raised commodity prices to a certain extent.

However, we should know that price reform is imperative under the circumstances. For many years, prices were kept stable, but they were actually frozen and kept at an irrational level and at an irrational parity. We have been compelled to pay a dear price for them—economic stagnation and shortage of market commodities. We must carry out price reform in order to shift to a commodity economy.

We should also see that price increases brought about by price reform are benign. For instance, the state in 1979 raised the prices of agricultural products by a big margin and greatly changed the market environment of unequal charges between industrial and agricultural products. As a result, grain and cotton production hit an all-time high. In 1985, the system of unified and fixed state purchase was reformed, pushing millions upon millions of peasants to a bigger and wider market and relaxing control of more and more products. It is evident that price reform can straighten out the irrational parity and promote the development of productive forces. Price reform is not to blame for today's serious inflation.

The sharp increase in commodity prices is mainly caused by excessive social demand and shortage of effective supply.

The situation can be described better with figures.

Investment demand: From 1979 to 1987, society's investment in fixed assets increased at an average annual rate of more than 20 percent. However, in the same

period, the gross national product and revenue increased at an average annual rate of only 9.3 percent and 8.6 percent respectively, and the projects under construction by state-owned organizations cost a total of 1,000 billion yuan, obviously exceeding the state's financial and material capabilities.

**Consumption demand:** The total wages of workers and staff members in China increased at an average annual rate of 21 percent from 1984 to 1986, and rose 12.4 percent in 1987, far exceeding the increase in labor productivity. The same trend continued in the first 3 quarters of this year—with wages and bonuses of workers and staff members totaling 150.9 billion, up 20.1 percent from last year's corresponding period; and other individual income exceeding 62 billion yuan, up 37.5 percent.

In addition, the run-away institutional consumption is also worrisome. In 1987, the institutional consumption amounted to 55.3 billion yuan, which was equal to 370 percent of the 1978 consumption, 90 percent of the 1987 state capital construction investment, or 24 percent of the 1987 state revenues. Early this year, the State Council issued an urgent circular calling for a 20 percent reduction in this year's institutional consumption. What has happened since then? Total consumption in the first 3 quarters had already reached 48.7 billion yuan, up 21.3 percent from last year's corresponding period.

The increase in both investment and consumption has directly caused excessive monetary issue. Since the beginning of the Seventh 5-Year Plan, the rate of increase in money supply has approximately doubled that in the supply of industrial products.

The excessive increase in commodity prices is unavoidable because the "scissor gap" between supply and demand is becoming wider, monetary issue far exceeds commodity supply, some producers and dealers are taking the opportunity to increase prices, and "bureaucratic racketeers" and "private profiteers" are availing themselves of the loopholes of the "double-track" system and speculating in the commodity circulation field.

#### **The Serious Imbalance between Supply and Demand Is Not Accidental, and It Is a Longstanding Economic Phenomenon Deeply Rooted in the Old System**

Under the system of highly centralized product economy, people are intuitively hungry for investment and driven by quantitative quotas. They engage in short-term undertakings for quick success and instant benefit, seek investment and expansion involving no risks, and go after high growth rate in disregard of economic efficiency. This is precisely the reason why it is difficult to achieve a balance between total supply and demand. According to statistics, of the 28 years from 1952 to 1979, the total social supply and demand were relatively balanced in only 11 years, and the demand was greater than the supply in 17 years.

In recent years, the situation has changed. Reform in the preceding stage was basically taking the road of delegating power and reducing the profit delivery burden. Strict mandatory plans and the financial system under unified state control over income and expenditure began to disintegrate. Local governments, departments and enterprises have had relatively independent interest and decisionmaking power in economic development. Currently, the extra-budgetary funds under control of local governments, departments, and state-owned enterprises have increased to 200 billion yuan. The combined total of these funds and the extra-budgetary funds of urban and rural collective enterprises is even greater than the country's annual revenue. With both power and money, they have done many good things which cannot be done by state funding alone. This is a major achievement of reform. However, various localities have also set up a large number of rapidly completed medium-sized and small processing industry enterprises designed to yield quick economic results. They also vie with each other with respect to the scale of construction projects. Many enterprises on the one hand are seeking preferential treatment in order to retain more profits for use in issuing bonuses, while on the other hand, they strive to obtain bank loans in order to expand reproduction.

Switching from the old to the new system in the course of reform cannot be accomplished in one move. Faced with an array of diversified investors and investment channels, the government is still incapable of making effective readjustments and exercising good control. Therefore, it is difficult to radically solve the problem of the overheated economy, and correct the situation where overall demand far exceeds supply.

#### **Temporary and Permanent Solutions Are Needed To Curb Inflation**

The urgent current task is to show fixed determination to control the overheated demand. The scale of investment should be curbed, consumption by social institutions controlled, money supply tightened, and excessive economic growth slowed down. We should be aware of the effect of these "tightening" measures on the development of production and on financial revenues. But these are the pains we should undergo and the price we should pay. Since the economy became overheated in 1984, we have tried to fix the problem, but aborted the tightening policy due to lack of determination and forceful measures. The "tap" on credit and loans was turned loose again, and resulted in excessive price increases. This lesson should be remembered.

Meanwhile, we should strive to increase effective social supply. Do not demand tightening across the board. While strictly controlling the overheated economy, we should build more projects for primary industries, such as energy, transport facilities, and those in raw and semifinished materials; increase investment in agriculture; and vigorously produce farm products, light industrial goods, textiles, and other goods in short supply.



More importantly, we should find a permanent solution by speeding up the changeover to the new system and deepening reform in all areas.

The pressure of inflation tends to force the people to resort to more administrative intervention in order to control economic activities and bring down market prices. This may cause stagnation or retrogression in reform. We should keep a cool head in this regard.

To develop production and increase supply, eventually we shall have to depend on the law of value, and a suitable environment for policy implementation and market operations. Therefore, while trying to effectively control the overall demand of society, we should make more room to carry out price reform, and gradually straighten out the price structure.

Enterprise reform should be hastened. It is necessary to perfect the contract system; implement the shareholding system; improve economic results; establish a mechanism for enterprises to operate independently, assume sole responsibility for gains and losses, and exercise self-restraint under the state's macroscopic control; and increase the enterprises' ability to cope with problems resulting from price increases. This approach of easing the contradiction of excessive price hikes also paves the way for future price reform. While carrying out reform in all areas, we should also gradually establish a new order for the socialist commodity economy, perfect the macroscopic system for making readjustments and exercising control, and put an end to the confusions in the market.

It is not impossible to check excessive price hikes. The important thing is that we should clearly understand this problem cropping up in our course of advance, take firm and effective measures to control inflation, and have an unshakable determination in carrying out reform in all areas.

**JINGJI YANJIU on Industrial Reform**  
*HK2812081188 Beijing JINGJI YANJIU in Chinese*  
*No 10, 20 Oct 88 pp 64-69, 63*

[Article by Lu Deming 7120 1795 2494 of the Economic Research Center under Fudan University: "Reform the Industrial Structure and Establish a Monopoly-Competition Market"]

[Text] **Our Country's Industrial Organization Must be Reformed**

### **1. The Key To Deepening Reform Lies in the Market**

The basic task of socialism is to develop the productive forces and the key problem in developing the productive forces is achieving effective deployment and use of the limited resources. In modern society there are two major forms or systems of deploying and using resources: 1)

Planning; 2) The market. They separately correspond to different economic systems, the product economy and the commodity economy respectively.

A socialist economy is also a commodity economy. A commodity economy is, by its nature, a market economy and resources are deployed, production regulated, and circulation achieved through the market. Thus, the market is the basis of the new economic structure.

During the 10 years of reform great things have been achieved in the change from the old system to the new. The old system has already been partially broken down and the proportion of planned distribution has greatly decreased. However, the new system has not yet established its ruling or leading position. The scope and capacity of those things which are mainly subject to deployment through the market are still very limited. At present we are at a stage where the old systems are changing track to the new and the two types coexist. The sticking and friction between the two systems has resulted in many holes and much confusion appearing in economic life. The only avenue to escape these difficulties and break down the ossified situation whereby the "double tracks" coexist is the market. Only with the establishment and perfection of the market and its effective operation will it be possible to spur reform of the microeconomy and finally realize a basic change from the old system to the new.

### **2. The Precondition for Regulation by the Market Is Organization**

In classical economics it is held that markets are complete competitive or freely competitive and that the deployment of resources is undertaken by the law of value, or the value mechanism. Thus, only through non-interference can this classic-model market move towards optimal balance.

Modern economics points out that actual market competition is not complete and notes that monopolistic factors widely exist. The mechanisms of resource deployment include not only pricing (regulation by the market) but also organization (administrative regulation). Externally, organization carries out exchange through the market and this is regulation by "the unseen hand." Internally, organization relies on planning in administrative coordination and management coordination and this is guidance by the "seen hand." Organization and the market supplement and can replace each other. They are also preconditions for one another. The role of the optimization of the pricing mechanism in the deployment of resources has a certain market order as a prerequisite, and market order is in turn determined by an appropriate market structure. If organization is not rational there will be no order in the market and no standards, or perhaps no market will be formed at all and therefore it will be difficult for the actual role of the pricing mechanism to be fully brought into play.

The structure of the relationship between enterprises within industries forms the industrial organization. This is based on the division of work and coordination relationships in the production process and is reflected as a relationship between monopoly and competition in the same market.

As the fourth factor in production our country's organization of resources does not measure up to requirements. Apart from some traditional patriarchal small-scale agricultural or production organizations, there are only standard administrative and monopolistic state organizations of various types and at various levels. The market is thus excluded or replaced. As the organizational structures are duplicated and the management procedures are troublesome, bureaucratism is serious, departmentalism is rife, and it often occurs that power is used for private gain and corruption results. It even happens that in order to obtain some power or benefits there is a "struggle within the nest." This leads to the point where government actions are not standard and the "illness of officialdom" is difficult to cure. In this ladder or pyramid organizational system, enterprises are not the principal parts of the market and instead are actually appendages or executors of administrative organs.

First, in terms of legal powers, enterprises are not equal. Each enterprise has its own special status like state-owned, collective, or individual enterprise. However, their property rights are blurred and property ownership relationships are unclear.

Second, enterprises' administrative levels are different. Every enterprise has its own administrative next-higher level. The next-higher level is like a "grandmother" who manages and protects her own enterprises. There are enterprises under the jurisdiction of ministries, provinces (cities), and bureaus (departments), and township and small town enterprises and enterprises which are under both departmental and regional jurisdictions, and these all correspond to the respective levels of the administrative bodies. In handling matters they often seek the mayor of the city rather than the market.

The existence of this innate and artificial system of levels (including property rights levels and administrative levels) which has not been formed by the market results in irrationality in the scale and structure of enterprises. Their nature and function are unitary.

The growth of lateral economic alliances and of enterprise groups is indeed of major significance. However, the market conditions are not available and there are the limitations of the "three unchanging things"—ownership system status, administrative jurisdiction relationship, and channels by which taxes and profits are handed up. Thus, the lateral alliances which cross regions and

departments still meet walls on all sides in the organizational structure in which there are regional and departmental divisions, and intermeshed vertical and horizontal connections. The various types of alliances which have been knocked together by the government or which have come about simply by administrative organs changing their name, have always remained very loose. Shanghai and other areas have abolished administrative-type companies but because there has not been joint action with the corresponding bureaus a market has not been formed. The hands of the enterprises are tied. The "three powers," that is, financial power, the power to set quotas (the fixing and assessment of contract base figures), and the power over goods and materials, are still in the hands of the older-generation "great grandmother."

It can be seen that the traditional industrial structure is administrative rather than economic by nature. The replacement of the market function of resource deployment by this administrative organization obstructs the formation of a market mechanism. This is also a superstable system or structure which can automatically revive and heal itself. Thus the effectiveness of the partial reforms is very limited.

### 3. The Monopoly Nature of Administrative Organizations Obstructs Market Competition

The traditional administrative industrial organization has a monopoly nature. This monopoly is not a general market monopoly and nor is it a natural monopoly. Rather, it is a non-standard administrative or extraeconomic monopoly. It is manifested as a high degree of power concentrated in the hands of the central authorities, and the state, through all-embracing planning, relies on administrative orders to carry out overall control and management of macroeconomic and microeconomic activities. On the financial level this has been manifested for the enterprises as unified receipts and expenditure, together with unified purchase and marketing of products. Production factors and resources have been allocated in a unified way. The administrative organization is one whereby each region and department at every level and of every type are separated by barriers but are intermeshed horizontally and vertically, and in which there is a complete monopoly through state ownership and state operation. Throughout the 10 years of reform the strength of this administrative monopoly formed by artificial and institutional factors has been reduced. However, the monopoly nature and position has not been basically changed. It has built very high market walls and established repeated obstacles to entry and exit. This has not only restricted some markets and obstructed the process of introducing regulation by market mechanism, but has also limited the role of those market mechanisms which are in the process of forming but are not yet complete. This has led to a condition where there is no order and no standards in the competition. Thus, if we want to build complete markets and form corresponding market regulations and order, and



have them motivate macroeconomic and microeconomic activities, then we first need to reform the administrative monopoly industrial organization.

### **The Avenues for Reforming the Industrial Structure**

#### **1. The Avenues and Pace of Organizational Reform**

There are many diverse ways to reform the administrative monopoly industrial organization but there are only two major ones:

The first is to merge or replace all the administrative departments between the government (including central and local governments) and enterprises, give the whole scope of their original activities over to the market, free state-owned enterprises from the fetters of departmental or regional organization and allow them to operate independently and freely with full ability to engage in free competition. Of course, such a "destroy the temple and smash the idols" method is quite drastic and acute and may well lead to temporary disorder and shocks.

The other form is a milder method and involves, under the precondition of guaranteeing the normal operation of the existing economy, the realization of a change in functions of government departments at all levels. This will mainly be done through the separation of administrative and economic functions. The existing administrative organizations will gradually change into new economic organizations and the separation of government and enterprise functions will be promoted and the "two powers" separated. The enterprises will then be appropriately developed as the principal components of the market.

As to the pace, organizational reform can be divided into two steps:

The first step will be "breaking down the old." This will involve reforming the various types and various levels of administrative-monopoly industrial structures. Through this reform a functional change and mechanism change between the organizations and the market will be realized and the enterprises will be freed. Thereby, a market of low-level competition will be initially formed.

The second step will involve "establishment of the new" or innovation. As the enterprises participate in competition in the market which has just been formed, they will combine, reorganize, and merge. This will achieve a new situation in industrial organization and will promote the formation of a competitive market for current monopolies.

#### **2. The Reform of "Departmental" Organization**

Initially it will be possible to use the current financial contracts between enterprises and localities for some years and then, when the opportune time arrives, to reform the monopolistic industrial organizations in the following three steps:

1) The central industrial functional departments should continue to be merged and their function of managing enterprises will be changed. At the same time, the indispensable functions of the central bank and financial departments will be maintained and strengthened. For example, the merging of all industrial departments into one could be considered. Its basic task would be, on the basis of state industrial policies, to formulate industrial development plans and rationally deploy and readjust the internal industrial structure. At the same time as this abolition and merging is going on, under the state asset management bureaus there should be established some holding companies, asset operation companies, and suchlike organizations. They will contract out the enterprises which were originally under the departments and sell shares in enterprises and will be responsible for the operation and growth of state assets.

2) The various local management bureaus and offices will be replaced. Some of the power and functions will be transferred to comprehensive economic management departments which will manage financial matters, statistical matters, and auditing. The other powers will be directly handed down to enterprises. At the same time as replacing these departments local asset management bureaus, holding companies, and asset operation companies will be established. These will contract out the enterprises which were originally under the departments and will sell enterprise shares.

3) All administrative-type companies will be abolished and some will be reorganized into enterprise-type companies. After these companies are abolished all of their powers will be handed down to enterprises. Enterprises will be able to take decisions on their own affairs and they will compete with each other. At the same time, through avenues such as lateral alliance, vertical cooperation, and mixed mergers between enterprises, modern stock companies, or enterprise groups (when a bank participates it will be a financial group) will be established. On this basis, it will be possible to establish a series of non-government industry associations or industrial alliances and the original management by departments will be changed into management by industry. The present management personnel of companies will either take on the contracted operation of enterprises and gradually become entrepreneurs, or will establish and operate market middleman organizations or social service organs.

Large, medium, and small enterprises, together with the recently emerged new industrial organizations will all compete, ally, and merge in the market and will, through

industrial reorganization, develop in the direction of substantial and tight entities. The market will also allow a capacity for self-organization to come into play and through development and growth, these entities will make the transition to the goal of monopoly-competition [long duan jing zheng 1096 2451 4552 3630].

In this process it will be necessary to concurrently carry out corresponding reform of prices and enterprises.

First, the pricing relationships, including both product prices and production factor prices, will have to be put in order. It will first be necessary to do the following: 1) In fixing prices for production factors and resources it will be necessary to change the existing uncompensated use of land, houses, and other production factors into compensated use. 2) For products, high-quality should be highly priced as this will create a fair environment for competition between enterprises.

In price reform it is possible to adopt the principle of "initial adjustment and later freeing." That is, first there should be partial readjustment of irrational price relations and then prices should be freed. However: 1) The freeing of prices has a rational organization system as a prerequisite otherwise enterprises will not be able to digest or absorb them, and they will have to use their administrative monopoly positions to compete or to change the prices. 2) It is not possible to leave price fixing completely to the market. The free prices determined by supply and demand in the market may lead to economic fluctuations and instability or even to where "the unseen hand" mercilessly brings calamity. Thus, we should mainly proceed through the reform of industrial organs and adopting new price control systems (for guiding prices) for large enterprises of a group or company type, as well as coordinating prices between large enterprises (this is price coordination or a price cartel). Only thus will it be possible to restrict the maximum and minimum prices of particular types of products and prevent fluctuations and shocks.

Second, the financial and property relationships between enterprises will have to be put in order and reform of the ownership system will have to be carried out. It might be considered, on the basis of enterprises taking on contracted operation and at the same time as the industrial organization is reformed, adopting a shareholding participation system. There could then be a gradual change of state property rights into equity and with holding companies and stockholdings. The equity could be bought, sold, or transferred through the market, that is through the stock market, thereby creating conditions for enterprise mergers and industrial reorganization. After property rights relationships have been clarified and prices basically put in order the market can look forward to entering a situation of full competition and a tide of enterprise mergers will also occur. At that time, enterprises' original vertical administrative relationships or appendage relationships will be cut, and the enterprises will face only the market and will engage in competition.

In order to continue to exist in competition, achieve success, and develop, they will have to continually centralize and link up in alliances, expand their production scale, and raise their market share. This avenue includes lateral partnerships and joint ventures as well as vertical mergers and takeovers and mixed forms of reorganization and merger. The result of enterprise mergers will be that the superior succeed while the inferior are eliminated, and new modern companies and industrial groups will be created. The result of market competition will be that order will be born from disorder and in the free competition, the patterns of a commodity economy will be formed in which there will be both monopolies and competition.

### 3. The Reform of Regional Organizations

The regional organizational structure is actually an economic regional question. As far as a large country in which economic development between regions is very uneven is concerned, the existence of economic regions is objectively logical. However, the problem lies in: 1) The various levels of organization in our country—including province, city, region, and county—are administrative by nature and the various levels of local government often use administrative measures and methods to manage the economy. 2) There are mutual blockades between regions which separate and divide the markets. Thus, there is a need for reform.

First, there needs to be a functional change. That is to say the economic functions need to be separated from the administrative functions of the government organizations at various levels, the relationship between local governments and enterprises has to be sorted out, and a change between the government and the market has to be realized. At the same time as local governments withdraw from the markets and their actions are standardized, enterprises will be able to become the major market entities. There will be investment which crosses provinces and cities, operations which cross provinces and cities, and alliances and mergers which cross provinces and cities. Trans-provincial and trans-city companies will also be established.

Second, it will be necessary to break down administrative barriers and develop inter-regional trade. It is a pipe dream at present to think of establishing a huge unified market over the 9.6 million square kilometers of our country. We can only use the key cities as centers and, along the radiating spokes, establish large and small regional markets. At the same time, throughout the country we must eliminate the administrative walls and blockaded regional entities, and develop inter-regional trade. Then, by extending the radiating spokes of the markets and expanding market capacities we will gradually move towards a unified market which extends throughout the nation. To this end we need to readjust the relationship between the central authorities and the localities in two respects:

1) Separation of power. In the organizational reform the government should divide and hand down some powers and implement multi-level macroeconomic decision-making, with separate control and management at different levels.

2) Separation of taxation. First, financial contracts should be instituted and there then should be a transition to a system of divided taxation at different levels.

The basic characteristic of a unified market lies in that the main active entities are enterprises rather than governments. Following the rise of investment which crosses provinces, and of operations and alliances which cross provinces, there will indeed appear a second tide of enterprise mergers and industrial reorganization. With the emergence of trans-provincial and trans-city companies there will be a base for the establishment and development of trans-national companies. At that time the day of truly entering the international market and participating in international competition will not be far off.

#### **The Goal of Monopoly-Competition in the Organizational Reform**

Markets can be roughly divided into three types on the basis of their nature and structure—completely competitive, completely of a monopoly nature, and a mixed monopoly-competitive market.

The main entities in completely competitive or free markets are the many medium and small enterprises, and the prices of commodities and production factors are determined by supply and demand in the market. As far as the enterprises are concerned, the prices are produced externally and once they are set, the enterprises compete under the guidance of "the unseen hand." This type of classical market can be formed through enlivening small and medium enterprises and the appropriate freeing of prices. Although such a market has competitive vigor it lacks the benefits of economies of scale. This is because it is based on extensive operations and it is difficult to avoid the waste of resources and an uneconomic scale of activity. Also, seen from the history of capitalism, "the unseen hand" often produces market fluctuations and economic instability and can even lead to social turbulence and calamities. Thus, in Western countries this type of market was eliminated long ago and replaced or changed by history. This is not the goal of our reforms. At most this would only be a transitional model or would only be implemented in agriculture and a small number of other areas.

A completely monopolistic market has only one major entity and prices are completely determined by this monopolistic entity. It excludes competition and lacks vigor.

What is meant by monopoly-competition is that competition is not complete. This is also called effective competition or an appropriate degree of competition. Seen from the macroeconomic angle, monopoly-competition is manifested as competition with intervention or as adjustable or controllable competition. Seen from the microeconomic angle, it is either differential competition between products and services, or joint competition or competition of scale produced by the centralization of production.

1) The market is composed mainly of stock companies and enterprise groups (financial groups) which differ in their products, which have quite highly centralized production, and which have quite high market shares. These companies or groups are combinations or aggregates of the various enterprise systems and are manifested as controlling companies and branch companies, parent companies, and subsidiary companies. In achieving scale large, medium, and small companies combine in accordance with certain cooperative divisions of work relationships. In terms of functions they will have production, supply, and sales functions and these will be carried out by the factories, farms, shops, and banks. In terms of form they will comprise lateral alliances, vertical alliances, and mixed alliances.

2) The market competition measures and action modes are mainly of a non-price nature. Rather, there is technical competition in terms of strength and effectiveness in the areas of product quality, batches, types, packaging, brandnames, advertising, and service. Price competition still exists but it has been pushed back to second place. Prices are not entirely determined by the supply-demand situation in the market and often in competition, enterprises adopt coordinated prices or guided prices through cartels or price guidance systems. These limit the highest and lowest market prices of products of specific industries.

3) The state, through this market, realizes indirect macroeconomic regulation and control. The government can use the new-form industrial organization at this median economic level and, through shareholdings (holding shares or controlling shares) and financial infiltration, can carry out industrial management and guidance and readjust the industrial structure and layout. At the same time it can use financial measures, monetary policies, and so on to balance total supply and total demand.

4) Seen in terms of market effects, because of the competition between the external parts of the organization, the market mechanism can effectively deploy resources. Internal management and coordination within the organization can also replace market exchange. Thus production costs are low, exchange expenses are economized upon, and productivity, profit rates, and resource utilization rates are quite high. In a word, a monopoly-competition market can both maintain the vigor of market competition and fully use and

obtain the benefits from economy of scale. Further, diverse products and services are still able to satisfy the different demands and preferences of consumers. There is both the motivation for technological progress and pressure for such progress, and this can promote the development and new creation of major technologies.

Although on the technological level complete competition is superior to monopoly-competition, in the real economic system the efficiency of resource deployment and use is mainly determined by the nature of the market competition, the degree of use of economies of scale, and the unity of these two factors. Thus as far as those departments and areas where on the technological and economic levels it is more beneficial and more effective to adopt management coordination from the modern industrial organization than to have coordination through the market are concerned, the modern monopoly-competition market in which monopolies and competition coexist is a practical choice and the best choice as a goal for reform of the whole country's economic system.

The degree of monopoly and the degree of market competition will be determined by the level of development of the commodity economy in the various sectors and regions of our country. The monopoly-competition market can be divided into three levels: A low degree of monopoly-competition, an appropriate degree of monopoly-competition, and oligarchical monopoly-competition.

1) A low degree of monopoly-competition. This is the aim of the second step of reform in our country's rural areas. The first stage reforms established output-related contracted operation responsibility systems which had rural households as a unit. These reforms initially opened up an unregulated market of free competition. Now, in developed regions and the suburban areas of large cities, there has begun to appear modern agricultural operations of scale or intensive operations modes. This trend shows that on the basis of free competition which also has intervention, the rural areas will, in the medium-term, be able to look forward to a low level of monopoly-competition

2) An appropriate degree of monopoly-competition. This is the goal for urban industry, commerce, and construction which occupy the leading position in our country's economy. In most industries management by department will be changed to management by industry. The relationship between companies and groups in the market will be appropriately monopolistic and appropriately competitive. Agreed prices for industries will be the main form of market prices.

3) Oligarchical monopoly-competition. A small number of particularly large or giant industrial organizations will control the market and control or guide prices, and will appropriately compete. The most typical models for this are the heavy industrial sectors such as vehicles, iron and

steel, and the oil industry. Seen from their current situation and development trends, in the medium term it will be completely possible to form a situation of oligarchical monopoly-competition. The railways, posts and telegraphs, and other such public facilities require, due to the special nature of their products and service, a monopoly. Such monopolies are natural monopolies but for a long time they have been entirely government administration monopolies. Thus their efficiency has been very low. In order to raise efficiency in the medium term it will be necessary to open a "market for competition," and in accordance with the principle of separating ownership and operating rights, adopt a contracted operation form and break down the state-owned monopoly situation.

As a target, the monopoly-competition will not only differ between the traditional agricultural sectors and modern industrial sectors, but also between developed and undeveloped areas. In general, in the medium term the eastern coastal regions should, with a high degree of monopoly-competition, establish trans-national companies and other such modern industrial organizations, enter the international market, and participate in international competition. However, the western border regions will place stress on developing medium and small enterprises and the private economy, and will form a low level of monopoly-competition or even free markets.

#### **The Feasibility of the Idea of Organizational Reform and Obstructions Thereto**

Transforming the industrial structure and appropriately reforming prices and enterprises in order to establish a monopoly-competition market—this organizational reform idea is feasible and effective. However, difficulties and obstacles do exist.

#### **1. The Contradiction Between Power and Interests**

Organizational reform involves the redistribution of immediate interests and power. The contradictions, difficulties, and obstacles in the process of readjusting powers and interests are not difficult to imagine. This is the greatest obstacle to carrying out reform of the industrial organization.

China has long had a system whereby power is concentrated in the hands of the central authorities and the feudal traditions are deep-rooted. Its entire social economy relies on power as the primary motivating force and interests are also promoted by power. In people's eyes if one has power, one has everything. The pursuit of power and the worship and idolizing of those who have power, is often more powerful than the worship of commodities and the worship of money. When the reforms touch on immediate interests and require surrendering power,



paying a price, or making a sacrifice, there will inevitably be conflict with some people, thereby producing major obstacles. The history of the 10 years of reform fully demonstrates this point.

The key to resolving this difficulty lies in changing the original situation whereby power provides impetus, to one where actions are induced by interests. Actions will thereby be prompted by economic levers which will gradually weaken people's desire for power and strengthen their desire for interests. In this, the biggest problem will be how to make suitable arrangements for a large number of middle-level cadres and provide them with alternative avenues. A possible option is that during the reforms their current remuneration and conditions will be maintained and they will be able to take on the contracted operation of enterprises, establish companies, set up markets, or run compensated social services. Thus, these people gradually change from government officials to entrepreneurs. It must be borne in mind that, if we solely carry out organizational reform and do not pay attention at the same time to fostering a strata of entrepreneurs, it will be difficult to realize the benefits and advantages brought by the operational and management reforms.

## 2. The Clash Between Monopoly and Competition

There are many types of monopoly but this article has mainly touched on two—administrative and market monopoly. The former is produced through artificial or system factors and is the target of our reforms. The latter is produced through economic or technological factors and is what our reforms advocate.

Actually, monopoly is not a phenomenon peculiar to capitalism, and nor is competition. If a commodity economy exists, competition will appear. If there is competition, then inevitably there will be movement toward its opposite, the formation of monopolies. This is the objective tendency in socialized large-scale production and is the inevitable result of the commodity economy. Socialism also involves a commodity economy and thus monopolies and competition in the market cannot be avoided. An appropriate degree of monopoly, like an appropriate degree of competition, is beneficial. Seen in terms of our country's present level of development and goals we lack this type of monopoly. We require a certain amount of monopoly.

Of course, an excessive degree of monopoly is not a good thing because it can obstruct competition. Thus, at the same time as carrying out industrial organizational reform and implementing monopoly-competition we must guard against and overcome any situations of excessive monopolies, and safeguard effective competition. We must restrict unfair competition and set down scale datum lines for enterprises of various industries to reach, so as to encourage production centralization and enterprise alliance, and to oppose monopolies and break down the various market barriers and obstacles to entry

and exit, including regional barriers. The most effective measures for preventing and overcoming an excessive degree of monopolies are: 1) The government will formulate rational industrial policies and engage in industrial guidance and management. 2) Economic legislation including a free trade law, anti-monopoly law, enterprise law, company law, enterprise bankruptcy law, and so on. Then, laws and regulations can be used to safeguard the order of the socialist market.

## PROVINCIAL

### Guangdong Enterprises To Face More Difficulties *HK3011110888 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 30 Nov 88*

[Text] Vice Governor Zhang Gaoli of our province has pointed out that industrial enterprises of our province will face five difficulties including a power shortage next year. He made the remarks when he spoke on the crucial situation and challenge that industrial enterprises of our province are now facing at a national seminar on management of enterprise consortia, which was held in Guangzhou yesterday.

The governor also called for greater determination and confidence to overcome the difficulties. He noted: We must deepen enterprise reform in three aspects, including comprehensive improvement and development of the enterprise management contract responsibility system so that reform and construction will get onto the right track of sound development.

Zhang Gaoli continued: According to an analysis of next year's economic situation made recently by the provincial Economic Commission, it is anticipated that enterprises will face five major difficulties including a serious shortage of power, raw and semifinished materials, funds, transport facilities, as well as a heavy burden. Facing such a crucial situation, the only way out for enterprises is to deepen reform in three aspects. First is to comprehensively improve and develop the enterprises management contract responsibility system to introduce competition. Second is to resolutely organize enterprise consortia. Third is to introduce the share-stocking system.

### Jiangsu Disposes of Party, Government Enterprises

*OW0712191188 Nanjing Jiangsu Provincial Service in  
Mandarin 1015 GMT 30 Nov 88*

[Text] What progress has Jiangsu Province made in examining and disposing of enterprises run by party and government organs and their cadres since the work began in May? With this question in mind, this reporter today interviewed Comrade (Hao Keming), deputy head of the Jiangsu Provincial Leading Group for Examining and Consolidating Enterprises. Comrade Hao cited a set of figures to illustrate the situation: There were 1977 enterprises run by party and government organs and

their cadres in the province. After the leading group took actions to deal with these enterprises in the last 6 months, 500 of them have been shut down, 736 have been disconnected from party and government organs, 442 that meet established regulations were allowed to continue operations, and 299 are being further investigated. One thousand eighty nine cadres of party and government organs, including retired cadres, used to have part-time job at enterprises, but now 1673 of them have quit. Comrade Hao Keming said: The Provincial Leading Group for Examining and Consolidating Enterprises and leading groups of various cities have also looked into 111 cases in which enterprises seriously broke the law or violated established regulations. Seventy-one of these cases have been settled while the rest are being investigated. Comrade (Hao) said sincerely: Although marked progress has been made in this work, many problems still exist, with the major ones being: First, leaders of some units have not paid adequate attention to this work, and, as a result, work in some localities has not been carried out as well as in other localities. Second, some comrades have not given primary consideration to the interest of the whole. They have been afraid of putting themselves in an unfavorable position because of [words indistinct], and suffering financial losses once their enterprises are shut down. Third, some party and government organs that announced that they would give up their enterprises actually have not done so; and some cadres of party and government organs who announced resignation from their posts at enterprises actually have not resigned. Fourth, cases involving serious law breaking and regulation violation by enterprises has not been handled quick enough.

When asked how the government would deal with those party and government organs that have announced that they would give up their enterprises but actually have not done so, those cadres who have only resigned from enterprises in name, and those cadres who had not resigned from enterprises by 30 November, a deadline set by the government, Comrade (Hao) said: To ensure that party and government organs do give up their enterprises, the provincial finance department has drawn up specific regulations on handling the financial problems of these enterprises after they are shut down. Except for some special cases, those cadres who only resigned from enterprises in name and those who had not resigned by 30 November will be criticized openly. Appropriate disciplinary actions will be taken against those who refuse to resign after being criticized. Comrade (Hao) pointed out: Enterprises run by party and government organs and their cadres only account for one-ninth of the total enterprises in the province. Work to examine and consolidate enterprises of various categories in the province, which total some 18,000, will begin soon. This work will be enormous, and a lot of hard work will be needed to accomplish the task. Leaders at all levels should have a better understanding of the

current situation, be determined to overcome obstructions, and see to it that this work is properly and thoroughly accomplished, and that no one is just putting on an act.

#### **Shaanxi Governor on Experimental Zones**

*OW0312030788 Beijing Domestic Service  
in Mandarin 0300 GMT 28 Nov 88*

[Text] According to a report by (Jiang Wenrui), reporter of the XINHUA News Agency, Shaanxi Provincial Governor Hou Zongbin announced recently that the provincial government has decided to set up a share system experimental zone for collective enterprises in both urban and rural areas in a bid to achieve a breakthrough in promoting a new phase of reform among enterprises by means of the share system.

There are over 3,900 urban and rural collective industrial enterprises, employing some 300,000 staff and workers, in Shaanxi Province now. They have played a great role in increasing accumulation of wealth for the state, bringing prosperity to the markets in both urban and rural areas, and accommodating the daily life of the masses in recent years. However, generally speaking, the urban and rural collective industrial enterprises are still comparatively underdeveloped among economic sectors in the province. Their output value only represents 17 percent of the gross industrial output value of the province; moreover, their efficiency is on the decline. In view of the above, the provincial government decided to use the implementation of the share system as a means of achieving a breakthrough and explore systematic experiences from implementation of the share system in a zone by the method of selecting the best through competition. The provincial government will carry out five supportive policy measures among enterprises in the experimental zones. They are:

1. The government will not interfere with setting up organizations, internal arrangement, selection and employment of cadres and workers, products distribution and sales, and remunerative transfer of fixed assets by the enterprises in the experimental zone.
2. The enterprises that implement share system in the experimental zone are allowed to offer their shares to the public for subscription. The enterprises are granted the right to decide on the percentage of share dividends and bonus, provided that they do not exceed 15 percent of their capital.
3. Stock exchange will be set up on a trial basis in the experimental zone. Trading of shares is allowed on the stock market.
4. From now on, the labor department will not issue plans for worker recruitment and index for control of total wages to the enterprises implementing share system in the experimental zone. They will be granted the power



to decide on the number of workers needed and employment conditions as required by production to employ workers from among public applicants.

5. The enterprises that implement share system in the experimental zone will be allowed to appropriate 1 percent of their proceeds from sales as fund for technology development for a period of 3 years. The fund will be earmarked for the specified purpose only.

Several cities and prefectures that are preparing to set up experimental zones in the province have already submitted their applications.

### **Widespread Raw Material Shortages Hit Shanghai**

40060166a Beijing JINGJI XIAOXI in Chinese  
22 Nov 88 p 1

[Article by Zhou Guijiang 0719 2710 1730: "Shanghai Takes Emergency Measures To Deal With Raw Material Shortages"]

[Text] To tackle the raw material shortage, the agencies concerned in Shanghai will take 13 emergency measures: impose a monopoly on the trading of raw materials in short supply; limit the consumption of certain items; modify the industrial investment mix, shifting emphasis toward raw materials, energy, and transportation, and improve the product mix in favor of compact, light, thin, and popular products; in coordination with the supplies bureau, speed up the production of raw materials for industries turning out popular products and expand the sources of supply of such raw materials; strictly limit the import of raw materials for industries turning out unpopular products and the export of raw materials for industries turning out popular products; introduce reward systems to encourage the production, economizing, and substitution of raw materials in short supply; establish a material development fund and raw material fund and intensify lateral economic cooperation to broaden the channels of raw material supply; use foreign exchange to procure raw materials within the nation; do everything possible to attract raw materials to Shanghai from the central government and all localities; introduce new flagship products, trade goods in return for raw materials, and promptly adjust the rate of exchange; the materials department should operate on a break-even basis; allow all industries and trades to receive business activity fees which can then be spent to secure raw materials.

### **Shanghai Ends Self-Price Inspection**

OW2311124888 Shanghai City Service  
in Mandarin 1000 GMT 21 Nov 88

[Excerpts] The self-inspection part of Shanghai's general price inspection basically ended recently. Compared with last year, self-inspection this year was carried out more extensively, the number of cases involving price violations was greater, and the amount of money

involved was higher. According to initial statistics, more than 12,000 of the 30,000 companies which conducted self-inspection had handed the discrepant amount to the price inspection department. Over 700 companies reported that they had violated price discipline, involving more than 5 million yuan, of which more than 2 million yuan had been handed to the government. Because of the importance leaders at various levels had attached to the price inspection, and the active reporting of price violations by the people, the price inspection yielded very good results. [passage omitted]

It was discovered in the course of price inspection that some units had serious problems. These units are being investigated by departments concerned, and disciplinary actions have already been taken against some of them. [passage omitted]

In the next stage of inspection, price inspection departments at the municipal, district, and county levels will focus their work on over 600 units of the Central Government in Shanghai and enterprises and institutions under the administration of the municipal government and district governments. In addition to general price inspection, price inspection departments at various levels have also paid attention to regular market inspection. In October alone, more than 23,000 inspectors were sent to carry out this work. They found more than 12,000 cases of price violations, imposed fines and confiscated illegal income totaling more than 50,000 yuan, and returned over 8,000 yuan to customers on the spot.

### **Shanxi Rural Entrepreneurs' Grievances Aired at Complaints Meeting**

OW2811115388 Beijing Domestic Service  
in Mandarin 1030 GMT 23 Nov 88

[Feature by station reporters Li Shitu and Li Yuan: "At a Complaints Meeting"]

[Text] Wang Maolin, deputy secretary of the Shanxi Provincial Party Committee, recently invited several rural entrepreneurs to air their grievances and suggestions in connection with the difficulties and problems they have encountered in running their businesses.

First to speak was Zhang Rushan, director of Lushan foundry in (Xinzhou). He said: Last year our plant signed a casting export contract with an American company. But, unfortunately, the supply of 1,500-kw electricity could not be secured, and we had to turn the order over to a foreign firm.

Infuriated, Wang Maolin said: Shanxi is an energy base with over four million kw of electricity. It is simply unthinkable that the mere 1,500 kw of electricity that you needed could not be guaranteed. He turned around and instructed comrades of the General Office of the

Provincial Government to immediately contact the Provincial Economic Commission and the Provincial Electricity Administration to solve Zhang Rushan's power shortage. He also instructed Wang Wenxue, deputy commissioner of (Xinzhou) Prefecture, to personally see to it.

Zhai Luanming, director of Zhongjiazhuang Farm Machinery Plant in Chengqu, Jincheng City, was next to speak up. He said: The quality of a copper-aluminum welded pipe made by our plant for use in refrigerators measures up to the domestic advanced standard. However, as the higher authorities insisted that it be marketed under the name of the Zhongjiazhuang Farm Machinery Plant, its sale suffers as a result of the ill match of the name and the product. At this juncture, some entrepreneurs in the meeting said in empathy that the conflict of interests among some government agencies really causes us rural enterprises great losses and puts us in a passive position.

Wang Maolin nodded and said: This is very true. We will contact the Administration of Industry and Commerce right away to look into this problem and correct it.

Hao Wanbao, director of a (?vinegar) plant in Lubao District, Yuci City, who was sitting next to the deputy secretary, had a face full of worry. Capable of generating only a modest profit, his plant is in deep water as various fees continue to go up. His situation struck a sympathetic chord in the hearts of the audience. Some noted that a stamp from an agency could cost 3,000 yuan. Others said that it became more and more difficult to get a cargo car from the train station. What could be accomplished in the past with a gift of cigarettes or liquor now takes several hundred or even several thousand yuan.

At this point, Wang Maolin stood up and said: Give us concrete facts, and we will make examples out of them to stop these unhealthy practices. If anyone dares to retaliate, the provincial party committee is on your side.

The meeting went on in a very lively way with every participant airing grievances and opinions.

Finally, Wang Maolin said: Your opinions are of great value. You have helped us to see things more clearly. We shall hold more of this kind of meeting in the future.

**Panic Buying, Speculation Brought Under Control in Xinjiang**  
40060166b Urumqi XINJIANG RIBAO in Chinese  
18 Nov 88 p 1

[Article by Xu Yudong 6079 3768 2639: "Despite Initial Success, Economic Rectification Remains Unfinished Business in Xinjiang"]

[Text] It has been learned from the 31st regular meeting of the Xinjiang Uygur Autonomous Regional People's Government that the rectification of the economic environment and the readjustment of the economic order

across the board in the region have begun to pay off, but progress has been highly uneven. Economic overheating remains a problem in many areas to varying extents. A lot of hard work still has to be done.

The 31st regular meeting, held on 16 November, heard reports on sorting out fixed assets investment projects, consolidating companies, and controlling social institutional purchasing power and prices. The meeting was presided over by Tomur Dawamat, chairman of the regional people's government; Huang Baozhang [7806 1405 3864], Tuohuti Shabier, Hedeerbai, Jin Yunhui [6855 0061 6540], and Mao Dehua [3029 1795 5478], vice chairmen; and Liang Guoying, [2733 0948 5391], member of the standing committee of the regional party committee.

Judging from the information supplied by the various functional departments, the autonomous region has largely done a good job in implementing the policies and measures of the CPC Central Committee and State Council regarding the rectification of the economic environment and the readjustment of the economic order. Since the 3d plenum of the 13th CPC Central Committee, the regional people's government has set up a string of leading groups and offices to trim fixed assets investment projects, consolidate companies, and control social institutional purchasing power. A regional price control commission also has been created. Top leaders in the people's government each took charge of a specific area and went to work, with some initial success. The clearing-up of building projects has largely been completed. Isolated exceptions aside, 20 projects have now been put on hold. According to incomplete data, the autonomous region's leading group on the rectification of fixed assets investment projects has straightened out 1,066 projects with a total investment of 6.3 billion yuan. Taking advantage of the studies completed earlier, we have made fresh progress in company reorganization. At present, the problem of party and government cadres above the county level holding concurrent jobs in companies has basically been resolved and we are now aggressively tackling the separation of government from enterprise functions within companies. The growth of social institutional purchasing power has been checked. During the third quarter, despite an increase in business and personnel, such purchasing power dropped significantly and the purchase of controlled commodities fell 21.52 percent compared to the same period last year. Panic buying has essentially died out, arbitrary price hikes have mostly been brought under control, and the market is stabilizing. Statistically, since last August the price bureau in the autonomous region has cracked down on over 600 units that had jacked up prices indiscriminately and confiscated 640,000 yuan in illegally earned incomes. It also has investigated a number of cases where officials or private individuals were guilty of reselling for a profit.

While our earlier work has achieved some success, economic overheating still exists in some areas. Right now a more serious problem is the difficulty of reducing

fixed assets investment and cutting back on projects currently in progress. Some areas, departments, and units lack resolve and take a wait-and-see attitude. Instead of suspending or slowing down their projects as they should, they have gone full steam ahead to rush them to completion. As a result, the trend in capital construction is still continuous expansion. Chairman Tomur Dawamat was very unhappy with and critical of this situation. Panic buying may have subsided, but the demand for durable consumer goods still exceeds supply. And there are the occasional unjustifiable price increases. Prices continue to rise. In October, the autonomous region's price index rose 1.3 and 2.9 percent over September and August, respectively. The consumption explosion keeps on worsening.

With these phenomena in mind, the autonomous region's people's government has demanded that all localities, departments, and units enhance their consciousness in enforcing the central government's various policies. Leaders at all levels, in particular, must show a firm attitude, take practical feasible steps, and tighten management to ensure that the rectification of the economic environment and the readjustment of the economic order proceed smoothly.

## FINANCE, BANKING

### **Largest Savings Bank To Expand International Business**

HK2911040888 Beijing CHINA DAILY in English  
29 Nov 88 p 2

[By staff reporter Guan Sham: "No. 1 Savings Bank Eyes Overseas Deals"]

[Text] The largest savings bank in the country is poised to expand its international business, improving its range of services.

At present, the Industrial and Commercial Bank of China (ICBC) is holding talks with a mission of the Asian Development Bank (ADB) on reissuing its loans through them to Chinese borrowers. They will be given from a pool believed to be in excess of many millions of dollars.

It will be the first time for ADB to make its loan through ICBC if the negotiation, which will last 20 days, goes well. And ICBC's foreign exchange assets will consequently increase.

An official of ICBC's International Business Department said he is confident that his bank will be able to reissue ADB loans.

Last month, the ICBC signed an agreement with the San Francisco-based Bank of America to sell and accept Bank of America travellers cheques.

At a recent conference in Zhengzhou, Henan Province, ICBC's vice-president Huang Yu-jun laid out the bank's business objectives for the coming years. He said it will also accept credit cards and apply for the right to relend foreign government loans. Some foreign banks have also requested ICBC to undertake export credit transactions.

The ICBC official said it is an ongoing trend for domestic commercial banks to do international business so that each bank will be able to adapt itself better to the current business situations and facilitate transactions in both foreign exchange and renminbi, the official currency of the country.

As one of China's five specialized commercial banks, ICBC developed its foreign exchange business soon after it was established in 1984. But the business was confined to granting loans and taking in deposits in the three special economic zones of Shenzhen, Zhuhai and Xiamen. After one year of trial operation the business spread to coastal cities and other areas.

**Article 'On Changing China's Financial Markets'**  
40060133 Beijing JINRONG SHIBAO in Chinese  
11 Nov 88 p 3

[Article by Li Maiqiu 2621 7796 4428: "On Changing China's Financial Markets; China's Financial Markets Have Made Amazing Progress, Achieved Remarkable Results, and Aroused International Attention and Favorable Comments in the Past 4 Years; but the Development of Financial Markets Is Certainly Not an Isolated Economic Phenomenon, Nor Will the Formation and Perfection of an Internal Mechanism Within Financial Markets Be a Short Process That Can Be Accomplished All at Once; Development of Financial Markets, on One Hand, Must Be Suited to the External Environment on Which Its Existence Depends and, on the Other, Has Its Own Unique Laws of Operation; Thus, China's Present Financial Markets Actually Take Only the Particular Form of Interbank Discount Loan Markets That Lend Money Mainly for Buying Goods Wholesale; This Form Obviously Does Not Satisfy China's Market Demands for Developing a Planned Commodity Economy"]

[Text]

### **I. Current Issues**

A. China's present financial markets are single-function markets that conduct mainly interbank discount loan business. No matter how interbank discount loan markets develop, they can never become anything more than financial intermediaries, while enterprises which are their true subjects will always have to wait outside their doors. The actual current condition of China's financial markets is that over 90 percent of their business is in interbank discount loans, while only a very small amount is in bonds, stocks, and notes.

B. The fact that an internal mechanism within financial markets has evolved more slowly than market organizational forms have been created makes markets still rely to a great degree on the adoption of administrative measures to promote and maintain their operations. The present situation is that, in addition to the fact that treasury bonds and national key construction bonds rely mainly on administrative measures and even apportionment to be sold, many interbank discount loan markets which develop the fastest have appeared under artificial promotion and then "closed their doors and gone out of business" shortly thereafter. Even in some key cities, discount loan markets often become deserted places as soon as money becomes tight. The underlying cause of this is that only the "external factors" of financial markets have been emphasized, while the formation of an internal mechanism within financial markets has been overlooked. With this background, it will always be hard for truly meaningful financial markets to evolve, and their financial operations can only become another form of "planned finance" at most.

C. China's existing form of financial markets that are limited mainly to the single function of conducting interbank discount loan business are unable to accommodate the financial needs of our economic reforms and commodity economy growth or the need for fully synchronized matching services. For instance, since individual income rose greatly and income disparities widened, some of the wealthy class that evolved first have called for financial markets to provide flexible and convenient investment outlets and form a mechanism for a major transformation of consumer funds into production and construction funds; the incorporated enterprises that have appeared since enterprises were put under a contract system have called for the provision of fair incorporation outlets by conducting stock business in negotiable securities; the formation of a diversified investment structure of the central government, localities, enterprises, collectives, groups, and individuals has created a pressing need for financial markets both to fully develop their roles of guiding funds to flow in rational directions and promoting a better disposition of social resources and also to create a social supervision mechanism, thus ensuring investors' legitimate rights and interests. These are obviously needs that the current financial markets that exclude participation by enterprises and individuals and conduct mainly interbank discount loan business cannot accommodate.

Thus, I think that the form of China's financial markets should be changed not only because an internal mechanism within financial markets needs to be built and perfected, but also because of the objective calls for a "general financial arena" that is needed for vigorous development of a commodity economy. The general situation is that China's financial markets have undergone almost 4 years of debate, discussion, study, and practice, their initial stage of mobilization and popularization is over, and the time has come to change their form.

## II. Ways To Change

The basic ways to change the form of China's financial markets are as follows: the present interbank discount loan markets must be divided into two, i.e., through replacing transregional and transsystem financial networks with financial corporations, short-term bank loan markets with financial corporations as intermediaries should be formed and, at the same time, the present visible markets that open periodically should be changed to money markets that clear notes and make joint remittances; commercial notes and short-term financial notes, enterprise cashier checks, and large transferable deposit receipts should be vigorously popularized and short-term financial markets between enterprises should be formed; the functions of stock companies should be further increased, markets that issue stocks should be standardized, markets to circulate stocks should be set up, and complete stock markets that governments, banks, enterprises, and individuals can take part in should be formed.

How enterprises can take a direct part in financial markets is a major issue that has not yet been resolved in the present stage of China's financial markets. Moreover, enterprise participation in financial markets, on one hand, is an issue of short-term financing and, on the other, is one of long-range fund raising. The key to short-term financing is not the creation of market forms, but is promoting the use of many means of short-term financing and then the formation of short-term financial markets between enterprises. Thus, based on vigorous promotion of commercial credit notes, the key is promoting the acceptance and transfer of commercial notes between enterprises. Moreover, the use of certain new means of financing should be promoted. For instance, the use of short-term enterprise financing notes, enterprise cashier checks, and large transferable deposit receipts can form a note market in which many kinds of notes coexist and give enterprises many choices.

The key to developing stock markets is further expansion of the functions of stock companies. On the one hand, stock companies should standardize markets that issue stocks and, on the other, they should promote development and improvement of markets that circulate stocks and then form centralized and powerful stock markets.

## III. Matching Measures

The overall significance of changing the form of China's financial markets is that it will give them more power to promote and restrict the operations of our national economy. In order to change the form of our financial markets, it will be necessary to both standardize current nonstandard market operations and also ensure that the formation of new forms is in line with existing conditions.



The future aim of the monetary policy of the People's Bank of China [PBOC] will be to regulate and control in two major ways: 1. by using financial corporations to regulate discount loan markets or special banks and other financial institutions; 2. by using stock companies and stock markets to influence the government and enterprises. Thus, the following relevant matching reform measures must be taken:

A. The distribution of credit funds should be changed from vertical distribution by special banks to lateral distribution by provincial and municipal branches of the PBOC. In order to ensure that the PBOC's annual credit and currency issue plans are not overfulfilled, each provincial and municipal branch of the PBOC can be made responsible to the general office for its own part. This credit responsibility can be specified for 1 year or 3 years.

B. The absolute advantage of banks as a medium in indirect financing should be changed as quickly as possible and direct financing should be promoted vigorously. Work must be done in the following areas: 1. Enterprise consortiums should be vigorously cultivated, stock enterprises should be developed, and a certain number of blue chip stocks should be evolved as quickly as possible. We must guard against allowing "rubbish stocks" that are issued by enterprises with poor results to go on stock markets and damage their image; 2. A number of stock economy businessmen and organizational investors should be actively developed in order to invigorate stock market activity.

C. Efforts must be made to raise the consciousness of the whole nation to make financial investments. Since China's commodity economy is undeveloped, our conversion to a money economy has just been accomplished, and we have long adopted a policy of "financial repression," the people generally have a fairly poor sense of what financial investment is all about. This has also been an invisible obstacle to changing the form of our financial markets. Thus, raising the consciousness of all of our citizens about financial investment is certainly a task of top priority.

**Anhui Improves Financial Situation**  
40060132 Beijing JINRONG SHIBAO in Chinese  
9 Nov 88 p 1

[Article by Kang Liguang 1660 4539 0948 and Hu Yuan 5170 3293: "Anhui Credit Supply Imbalance Begins To Ease; Government Banks Coordinate Measures To Stabilize Financial Situation"]

[Text] *Editor's Note: After banks began to implement the "double tight" policy—tight money supply and tight credit—everywhere funds became hard to find. How to deal with this problem? There are just two schools of thought regarding this dilemma. Some look upward, whine about how scarce local funds are, and stretch their hands out to the banks to ask for more. Others look*

*downward and inward, and undertake serious and detailed research in order to find the proper remedy for the problem at hand. They take firm and effective measures to ease the current imbalance between credit supply and demand. The Anhui provincial government is now acting in accordance with this latter school of thought, and initial successes have already been achieved. To those elsewhere who have been accustomed to using the former method—Why not learn something from Anhui's example, maybe even switch schools of thought and try out their methods for a change?*

During the last month the provincial government of Anhui has put high priority on controlling the money supply and stabilizing the financial situation. After taking a series of effective measures, the amount of excess loans has decreased significantly, savings have increased moderately, and purchases of sideline agricultural products have quickened in pace.

In response to province-wide drops in savings and a serious lack of funds for peak season purchases of sideline agricultural products during the months of August and September, principal responsible officials from the provincial party committee, provincial government, and banks studied the problem in depth and formulated strong measures which centered on the organization of a team which would work hard to implement policies. They first acted to call in excess loans, and by October 28 had called in a total of 770 million yuan, or 84 percent of the target. Of this amount, agricultural banks exceeded their target by calling in 590 million yuan. Another measure was to continue to sell off physical inventory to establish fund sources. Some 600 million yuan have already been freed up in this manner, amounting to 84.6 percent of the annual target. Total current funds in industrial and commercial enterprises increased by 6.7 percent. By using 2 hundred million yuan in collected loans, the capital collected back from the loans as well as that switched into special accounts amounted to 200 million yuan each. A third measure taken was to carry out a large-scale cash reserves investigation. Banks and government organizations at every level organized nearly 3000 people to check on the credit and cash reserves of all work units, recalling 37.5 million yuan in excess cash reserves, which helped greatly to ease the short supply of cash. A fourth measure taken was to enthusiastically open savings accounts. With the support of every level of government and related departments, banks offered guaranteed savings accounts and premium savings accounts. Savings in cities and towns across the province rose by 40 million yuan during the month of October and thus turned around the savings "landslide." A fifth measure was to strengthen funds management to guarantee grain and cotton procurement funds. In early October, a funds management meeting chaired by a vice-governor was held every day in order to coordinate the raising of funds by government departments in charge of banking, grains, commerce, and finance. By the end of October they had completed their mission to supply 1.2 billion yuan for the purchase of grains and

cotton. Some 2.4 billion kilos of grain had been bought or ordered, which constituted 82 percent of the target. At the same time, the circulating cash of various specialized banks rose from 280 million yuan at the end of September to 380 million yuan.

In the second province-wide emergency telephone conference on November 1 to discuss finance work, vice-governor Longnian [7893 1819] asked that all levels of government and all departments, for the sake of reform and progress, take it upon themselves to carry out the policy of clamping down on credit so that all excess loans can be recalled by the end of November and at least 25 percent of all overdue loans can be paid back by the end of the year.

## INDUSTRY

### World Price Slump Slows Offshore Oil Industry HK2811051688 Beijing CHINA DAILY (BUSINESS WEEKLY Supplement) in English 28 Nov 88 pp 1, 2

[By staff reporter Xu Yuanchao: "Plunge in Spending on Oil Drilling"]

[Text] The slump in world oil prices has slowed down progress in China's offshore industry. Foreign investment which was at a peak of \$500 million in 1984, has plunged to \$154 million this year.

Part of the reason for this had been that foreign firms discovered reserves were not as large as hoped. "But none of them have tried to give up their rights to go on searching," a spokesman for the China National Offshore Oil Corporation, Wu Xunduo, pointed out. During the past nine years, overseas oil companies have invested \$2.3 billion in exploration and \$600 million in development in their contracted offshore areas.

China itself has spent 300 million yuan a year in its drilling operations in the Beibu Gulf area of the South China Sea and Liaodong Bay of the Bohai Sea.

The planned output target of crude oil this year is 850,000 tons but this is estimated to rise to six million tons a year by 1992. Wu said the industry was on schedule with one or two new offshore fields expected to come into production each year over the next five years.

He told CHINA DAILY that the Bozhong 34-2 oil field, discovered by a Japanese company in the Bohai Sea, will go into production next year.

The Huizhou 21-1 oil field, scheduled to go into production by 1990, is expected to turn out 1.4 million tons of crude oil annually. Another field, Weizhou 11-4 in the South China Sea, is also on the list to come into commercial production by 1990.

The Jinzhou 20-2 gas field and the experimental area of the Suizhong 36-1 oil field in the Bohai Sea are expected to start production in 1991.

The Xijiang 24-3 oil field in the Pearl River Mouth of the South China Sea is planned to be developed by 1992.

The Yacheng 13-1 gas field, for which the final agreement was signed with the Atlantic Richfield Co in Beijing last Wednesday, will start to supply gas to Hainan Island by 1993 with an annual output of 3.25 billion cubic metres.

It is expected that next year 14 to 15 new wells will be drilled. This is similar to the figure for this year but well down on the level of drilling during the "oil boom" years of the early 1980s.

But on the positive side, the success rate has been high in the Wei 11-4 structure of the Beibu Gulf where the China Nanhai West Oil Co has spudded five wells, of which only one was dry.

"In the first three quarters of this year, we drilled 34 test wells, of which 15 can produce oil and gas," Wu said.

He added that preparations for the third round of bidding had now been completed, leaving only one item, the sliding royalty rate, to be approved by the State Council. The new royalty rate to be adopted for the third round of bidding, is expected to be more favourable than the previous two.

### October Industrial Output Value Reported HK3011112188 Beijing CEI Database in English 30 Nov 88

[Text] Beijing (CEI)—Following is a chart of China's total industrial output value in October 1988, released by CSICSC (China Statistics Information Consultancy Service Center)

	(in 100 million yuan)		
	Oct 88	Jan-Oct 88	percentage over Jan-Oct 87
total	1080.8	9914.1	117.78
including:			
Light industry	547.2	4979.1	119.27
Heavy industry	533.6	4935.0	116.30
State-owned	680.4	6378.7	112.81
Collectively-owned	362.3	3216.7	125.43
Others	38.1	318.8	160.44
(industrial output value is measured in 1980's constant yuan)			



**Output Value of Various Kinds of Textiles in October**  
*HK2211100188 Beijing CEI Database in English*  
22 Nov 88

[Text] Beijing (CEI)—Following is a chart showing the textile output in October this year and their comparison with the same period last year (excluding that of silk):

Product	unit	10/88	percentage over 10/87
Total	million yuan	9814.00	11.90
Synthetic fiber	thousand tons	116.20	7.14
Cotton yarn	thousand tons	377.60	4.93
Cloth	million meters	1413.00	8.26
Cotton prints	million meters	706.00	7.53
Woolen fabric	million meters	20.45	5.95
Knitting wool	thousand tons	15.84	17.80
Gunny sacks	million pcs	67.16	0.98

**Textile Output for October Given by Geographic Areas**  
*HK2211095988 Beijing CEI Database in English*  
22 Nov 88

[Text] Beijing (CEI)—Following is a chart of textile output value by provinces, municipalities and autonomous regions in October 1988, released by the Ministry of Textile Industry.

	10/88	1-10/88	Percentage over 1-10/87
	(million yuan)	(million yuan)	
Total	9,814.32	94,497.25	9.86
Beijing	263.83	2,614.41	5.43
Tianjin	351.21	3,478.16	1.55
Hebei	476.30	4,753.28	14.73
Shanxi	164.01	1,576.49	15.13
Inner Mongolia	104.13	992.48	29.54
Liaoning	646.66	6,536.13	5.37
Jilin	142.54	1,414.56	6.61
Heilongjiang	225.71	2,211.82	8.02
Shanghai	1,075.26	10,639.15	-1.06
Jiangsu	1,411.63	13,579.54	7.53
Zhejiang	438.41	4,136.40	6.92
Anhui	308.84	2,844.39	10.89
Fujian	176.10	1,641.63	24.68
Jiangxi	160.13	1,475.87	3.92
Shandong	802.24	7,730.16	19.55
Henan	483.91	4,494.97	16.79
Hubei	739.63	6,854.14	10.20
Hunan	290.53	2,804.97	10.40
Guangdong	506.51	4,775.20	35.79
Guangxi	132.33	1,220.10	12.40
Hainan [figures not received]			
Sichuan	321.37	3,065.23	11.80
Guizhou	39.79	362.76	23.19

	10/88	1-10/88	Percentage over 1-10/87
	(million yuan)	(million yuan)	
Yunnan	67.85	625.08	-4.36
Tibet [figures not received]			
Shanxi	306.61	2,792.40	5.28
Gansu	64.46	668.89	13.21
Qinghai	11.87	140.84	6.82
Ningxia	19.12	188.82	24.97
Xinjiang	83.34	879.38	8.25

## CONSTRUCTION

**Case Studies in Housing Reform in Townships**  
*40060162 Beijing CHENGXIANG JIANSHE [URBAN AND RURAL CONSTRUCTION] in Chinese*  
No 10, 5 Oct 88 pp 22-25

[Article by Gu Suozhang 7357 4792 4545: "Housing Reform in Townships Should Center on the Sale of Public Housing and Housing Commercialization"]

[Text]

### Survey. Forecasting, Simulation.

Housing reform plans are being unveiled in one city after another. Rent increases, subsidy adjustments, the establishment of a housing fund, selling off residential units—the basic framework of housing reform in cities is already in place.

How do we tackle housing reform in the nation's 10,000 county townships? There is no consensus. Some people say we can copy housing reform in the cities and begin by raising rents in public housing. Others argue that conditions in county townships differ from those in large and mid-sized cities, so we should look for a new approach. As a result, some take a wait-and-see attitude. Some wait for instructions from above. Yet others have started comprehensive studies and surveys. Here we introduce the practices of several county townships which, proceeding from reality, have taken a fresh approach toward housing reform based on national housing reform requirements.

### Jin County: 96 Percent of Public Housing Sold in 3 Months

Jin County, a new township with 50,000 people in Liaoning Province, was designated as a pilot county in provincial housing reform early this year. In February, a program was introduced to encourage private individuals to buy their own homes. The program also included provisions for the "sale and subsequent renting of housing, the conversion of rent into subsidy, and the commercialization of housing." Because the housing reform program accorded with reality, the leaders set an example, home prices were set at reasonable levels, and the government adopted a policy to encourage home purchasing on preferential terms, 192,000 square meters of

public housing were sold in just 3 months, which amounted to 96 percent of the township's total public housing stock, recovering more than 10 million yuan.

Certainly the reform was not all smooth sailing. Shortly before and after the plan was unveiled, a concerned public talked about it endlessly. Some said, "Other counties don't reform. Jin County is only trying to be in the limelight. Those who reform first are also the first to lose." Others suggested that "We should raise rents and adjust subsidies, like what they do in the big cities. Must not give the masses a raw deal." Yet others said, "No money to buy homes."

The response of the secretary of the county party committee: "Reform must not be concerned with or proceed from private individual interests. We should look at the broad picture and consider the general interest. Peasants have never depended on the state for housing; they have always built their own houses with their own money. We must enhance our consciousness of the commodity economy and free ourselves from traditional housing ideas. Leading cadres must have the courage to pass this test." Practicing what he preached, he spent 2,800 yuan on a reed house built in the 1950's with a usable floor area of 35 square meters. The county chief too took the lead by buying a 65 square meter-house for 4,500 yuan. As he did not have enough cash on hand, he borrowed some money from relatives, money that was originally intended to pay for a color television set. With county leaders setting an example, a home-buying stampede swept the entire county.

Why did Jin County not raise rents and adjust subsidies? Reportedly not because they did not want to, but because they could not afford to. After working through the figures, they ran into three unsurmountable barriers. One, the finance department could not afford the subsidies. Two, there was no money to fix the old housing stock. Three, no money to build new houses. Had this situation been allowed to continue for long, "we would end up with no money to finance new construction and must make do with the old housing stock," clearly no solution to the housing problem. The housing reform program, on the other hand, encourages individuals to buy homes, offers preferential terms for home purchasing, and sets home prices at reasonable levels. Houses are divided into different categories and grades depending on whether they are multi-story buildings, pointed-tile houses, or one-story houses. On average one square meter of living space costs 100 to 120 yuan in old houses and 280 yuan in new houses. Neither the government nor enterprises have suffered any losses, while employees and workers found home buying within their purchasing power. Although the thrust of the policy is the sale of houses, it also provides for the conversion of rent into interest to benefit tenants in public housing who do not buy their own homes. Instead of paying rent, these tenants pay interest on the prices of their units (at the rate of 8.4 percent). The tiny handful of households with special hardships, such as orphans, widows, the sick, and

the handicapped, who cannot meet the extra payment resulting from the conversion of rent into interest, can apply for welfare subsidies in the normal procedures through their own units or civil administrative authorities.

Housing reform in Jin County proceeded rapidly and has had remarkable results. First, it has changed people's thinking about housing. The traditional idea was that housing was a welfare service, a necessity of life supplied by the government. Now that has given way to the new concept that housing is a commodity. The masses say, "Housing is now a commodity and no longer a privilege." After the reform program was introduced, many residents bought houses with savings and money set aside for weddings. Many people borrowed from friends and relatives to buy homes. Second, it has promoted residential housing construction. Funds recouped from the sale of public housing financed a boom in new housing construction. In 1988, 48,000 square meters of new housing will be built, solving the shelter problem of 1,000 households. Already 10 million yuan has been received as advance payments for new public housing to be built. Never before in the history of Jin County have so many homes been sold and so many people bought homes. Third, "the bigger your house, the more you have to pay; the smaller your house, the less you have to pay." Since this applies to everybody, it has effectively checked the unhealthy trend in housing. Fourth, it has hastened the growth of a real estate industry, the construction business, and building-materials industry. In the 8 years between 1980 and 1987, investment in housing and repair and maintenance spending totalled 7.89 million yuan in the entire county, and the only thing we had to show for all that money was dilapidated public housing and a housing shortage. Today, what was once a basket case—public housing—has been turned into a money spinner, with 40,000 square meters being sold each year, setting off a chain of positive actions that perpetuate themselves.

#### **Liaozhong County: 92 Percent of Total Housing Investment Are Raised From Among Individuals**

With a nonagricultural population of more than 30,000, Liaozhong County in Shenyang used to depend on subsidies, appropriations, and government housing investments. In 1986, living space per capita was about 4.2 square meters and over 3,800 households, or one third of all households in the county, were not adequately housed.

How does a county township with a housing shortage where both the finance department and enterprises are strapped for money go about tackling housing reform? Liaozhong's method was to begin by raising funds among individuals. Because the policy drawn up by the county government was exactly what the public wanted, it enjoyed immense public support. In 1987, private investments topped 23 million yuan, exceeding all

investments in public housing in the county since liberation. In 1988, private investments in housing rose to 26 million yuan. During the past 2 years, private investments accounted for 92.5 percent of all housing investments in the county and will enable 2,200 households to move into new homes. The number of households which have housing problems has been reduced to 1,000. In 1987, living space per capita rose to 6 square meters.

After 2 years of fund-raising in the private sector to build homes, the workers' housing conditions have improved, the old supply system of housing allocation has been eliminated, and the masses' view on consumption has changed along with their consumption pattern. People who have been to Jin County all notice that the locals are ready and eager to spend on home-building and make "modern facilities" indoors their second priority. As a result of pooling funds to build homes, a lot of building land has been saved. All 200,000 square meters of residential construction completed in the past 2 years have been erected on vacant land or on sites where old buildings had been demolished. No land at all outside township boundaries was built on. We can see that street after street is flanked on the two sides by new multi-story blocks. A new small county town is beginning to take shape.

In the city, Liaoning is in the process of broadening its housing reform by raising rents and issuing coupons, using experience gained in a number of experimental sites. As a county under the jurisdiction of Liaoning, should Liaozhong follow suit by raising rents and issuing coupons as its next step in housing reform? The county government's answer is that raising rents and issuing coupons would not work in Liaozhong. One reason is that the county government and enterprises cannot afford to give out subsidies. Second, 60 percent of the workers and cadres in the county township own their own homes. It is a tradition in Liaozhong for people to solve their housing problem at their own expense. Third, surveys, deliberations and planning a program are very manpower- and time-consuming, yet their practical significance is minimal. Accordingly, what Liaozhong proposes to do as its next step in housing reform is to sell off old public housing by pricing it reasonably and offering preferential terms. Specifically, it has decided on three rules. First, the houses will not be sold at fire-sale prices. On the other hand, the purchasing power of home-buyers will be taken into consideration. Second, appropriate preferential home-buying terms will be offered. The home-buyer who can pay off the entire price in one lump sum within a year will enjoy a 20 percent discount; 2 years, 10 percent off; 3 years, 5 percent off. If the home-buyer cannot come up with the money for the time being, he can take out a mortgage and pay interest on it on a monthly basis. The interest rate is to be determined in accordance with the rule that it more or less double the original rent, equivalent to 12 to 15 percent of a worker's basic wage. Third, once a house has been sold, it can be put on the real estate market immediately.

Reportedly the second reform step has been embraced by the workers and received the support of the housing reform authorities at the higher level.

#### **Xinchang County: Allocation of Public Housing Abolished; 39 Percent of Residents Move Into New Homes Within 3 Years**

A small county located in a hilly area, Xinchang County is under the jurisdiction of Shaoxing Shi in Zhejiang Province. It has a population of 40,000 people in 9,400 households. In 1983, 600 households were either homeless or inadequately sheltered. The county managed to take care of 20 households each year using appropriations from the finance department, which was a drop in the bucket. There was a severe housing shortage.

Facing up to reality, the county party committee and county government decided that housing must be commercialized. The county chief himself then went to work, writing an article calling for early reform, early initiative, and early pay-offs. He argued that the longer housing reform was put off, the more dependent and passive the county would become. The county decided to abolish the allocation of public housing beginning in 1985 and make everybody pay for the construction of his new home. The reform measures turned out to be tremendously popular. Within 3 years, 3,736 households, or 39 percent of all households in the county, have moved into new homes which they had built and purchased out of their own pockets. Specifically, this was what the county did:

- 1) The housing management authority built housing as a commodity and then sold it to private individuals. Within 3 years, 33,000 square meters were sold. This kind of residential construction was exempt from building and sales taxes, among others. The sale price per square meter was 147 yuan in 1985 and 205 yuan in 1987. Depending on their financial state, work units might offer subsidies to their home-buying employees. Housing prices could be subsidized to a maximum of 50 percent and a minimum of 10 percent. In addition, 18 percent of home-buying households received no subsidies.

- 2) Units raised funds on their own to build houses for their workers, selling a total of 58,000 square meters in the past 3 years. Selling prices averaged 175 yuan per square meter. On the average, the units subsidized the purchase price to the tune of 43.6 percent.

- 3) Units raised funds from among their workers, primarily young married couples, to build houses. In the past 3 years, 1,231 families in 39 units pooled their funds to build a total of 53,000 square meters of living space. The average size per household was 43 square meters. Sale price per capita averaged 180 yuan, of which 34.5 percent were subsidized by the units.

4) The housing management authority and the development corporation organized residents to build their own homes. The government allocated land and drew up a plan centrally. It also provided roads, water supply, sewer, and other infrastructural facilities in addition to laying the foundation (in order to control the amount of land used) and designing building plans. The residents were then put to work building their own homes in accordance with specifications in the plans. By 1987, over 400 households had joined this project, building 58,000 square meters of housing. At the same time, workers were encouraged to renovate, rehabilitate, and rebuild their existing homes. In the last 3 years, 67,000 square meters of housing were rehabilitated.

Individual home-buying and home-building have become the housing development trend in Xinchang County. By 1988, home prices have risen to 230 yuan per square meter, but there remain plenty of potential home-buyers and 50 suites of residences were sold out in advance. The county is also gradually selling off existing public housing, getting rid of 30 or 40 suites annually at an average price of 60 yuan to 80 yuan per square meter in recent years. The housing management authority has recouped 168,000 yuan from such sales.

Units in public housing vacated by tenants who moved out after buying their own homes were reallocated among the homeless, the inadequately sheltered, and households enjoying the five guarantees, making a dent in the problem of homelessness. In 1985, 187 households in Xinchang County had less than 2 square meters of living space per capita. Now that problem has largely been solved.

Lesson: Housing reform in county townships should revolve around home-selling and the promotion of "home-ownership."

Housing reform in cities and townships is a complex daunting task, a piece of systems engineering. But detailed analyses show that as far as housing is concerned, there are sharp differences between cities and townships.

First, most residents in the cities are rent-paying tenants in public housing, which accounts for 80 percent of all housing stock. In county townships, on the other hand, the ratio between public and private housing is almost 1:1. In many county townships (including the three examples cited above) private housing outnumbers public housing. Housing reform is a heavily local matter. If housing reformers in county townships raise rents and increase subsidies, only a small minority will benefit. These measures are not likely to bring about a balanced relationship.

Second, residents in county townships, which are located between villages and cities, often tend to think like rural people so far as housing is concerned. This is particularly true in the case of townships newly upgraded from

village townships to organized townships. Most residents think that a person should own his own home. To them, real estate is a symbol of wealth and a primary means of wealth accumulation. The sale of homes and the encouragement of home-ownership by individuals exactly accord with their wishes and demand. County townships are much more receptive to the commercialization of housing.

Third, in the 8 to 9 years after the 3d plenum of the 11th CPC Central Committee, the state has encouraged and supported residents in cities and townships in building homes. New private housing construction accounted for 18 percent of all completed housing in 1985 and 1986 and reached 25 percent in 1987. County township residents have more wherewithal to build their own homes. Home prices too are lower in townships than in cities. Hence the more rapid housing development in townships. Many county township residents have built or purchased homes paying full price or on preferential terms. If we raise the rents of public housing and increase subsidies in county townships, workers who have built or purchased homes out of their own pockets will feel they have had a raw deal, which may create instability.

Fourth, looking at the situation as a whole, most county township residents have or are working hard to solve their housing problem with their own efforts. The state should endorse and support their efforts wholeheartedly and give them guidance. Generally speaking, county governments have little money and township institutions and enterprises are hard pressed financially. To raise rents and increase subsidies across the board would only impose yet another heavy burden on finance departments and institutions that are already in financial dire straits.

Fifth, raising rents and increasing subsidies are a piece of complex elaborate work. It takes a good deal of manpower and time to find out the circumstances in each unit and household, to carry out surveys, and to draw up plans. In county townships, many peasant families live together, with a good deal of idle money lying around. This too causes many technical problems for raising rents and increasing subsidies.

We propose that apart from specific cases, (eg., old county townships where public housing makes up the bulk of all housing stock), housing reform in county townships need not begin with the raising of rents and the adjustment of subsidies, but with the sale of homes and the implementation of "home-ownership" (the notion that the inhabitant of a house should also be its owner) as a general policy. As for specific measures, they may follow Liaozhong and Xinchang Counties and begin by raising funds to build houses and selling homes as a commodity before moving on to the sale of existing housing. Alternatively, they may sell old and new houses at the same time, as they have done in Jin County. Since housing reform in county townships does not include rent increases and subsidy adjustments, home prices



may be set slightly lower than in cities, that is, at preferential prices. The setting of preferential prices must be based on the spirit of government regulations and take the actual circumstances into account. For instance, it may be calculated at cost or by adding part of the costs of the fixtures and facilities. Thus we can say that home selling in county townships differs from sale price subsidies offered by cities which raise rents and adjust subsidies. By how much should subsidies go up? There should not be a hard and fast rule applicable nationwide. Even within the same county township, subsidies may vary from unit to unit, depending on their financial capabilities. Nevertheless, there should be a fixed subsidy ceiling, perhaps no more than 40 percent of the selling price.

It should be made clear that the direction of county township housing reform is "home-ownership." The avenues to achieving it include organizing individuals to build their own homes and building homes on a cooperative basis, as noted above. When individuals are organized to build their own homes, the government and units should offer them loans, supply them with building materials, and help them with building designs, etc.

Home-ownership does not rule out the need to reserve a small amount of public housing to be rented out to the limited number of households in economic hardships. In time this part of the public housing stock too should become financially self-sufficient. That is, rents should be raised to a level that would enable it to break even or make a small profit. Alternatively, one can do what Jin and Liaozhong Counties have done, namely, converting rent into interest. Hardship families which cannot afford to pay either rent or interest should be given open subsidies by the householders' units or the proper authorities.

Needless to say, with employees buying homes, we must urgently create a real estate market and step up after-sale management and maintenance services.

It is worth emphasizing that when rent subsidies in the cities are incorporated into wages in the future, the change should be applicable to city residents who live in private housing as well as those who live in public housing. The same would be true for county township residents.

It is foreseeable that the centerpiece of housing reform in county townships and some small and mid-sized cities in China will be the sale of homes, the combination of sale and construction, and the promotion of "home-ownership." Once that becomes a reality, housing reform in urban areas overall will have taken a big stride forward.

#### **Feasibility Study on Three Gorges Completed; Final Reports Approved**

*OW0412080688 Beijing XINHUA in English  
1123 GMT 30 Nov 88*

[Text] Beijing, November 30 (XINHUA)—The 30-month feasibility studies on the Three Gorges project

have been completed with two final reports approved, Chinese specialists said here today.

The feasibility studies, which began early in 1986, covered 14 subjects. The two final reports (on comprehensive planning and overall economic impact) are based on the previous 12 reports.

According to participants, the feasibility studies are the most democratic and scientific in the history of China's hydro-power construction.

They point out that despite the heavy cost and long construction period, the project will generate a great deal of power and produce worthwhile benefits.

And, they said, the Three Gorges scheme would be more cost-effective in satisfying the comprehensive needs of national economic development than other projects.

Many participants asked questions or made suggestions concerning the basic figures, calculation methods and conclusions used in compiling the two reports.

Qian Zhengying, head of the leading group conducting the feasibility studies and former minister of the Water Resources and Electric Power Ministry, promised that the two panels who drew up the final submissions will revise them again in accordance with some of the recommendations.

She said that the Yangtze Valley Planning Office will compile a final report based on the previous reports, and that the leading group will hold another meeting next spring to examine the final report.

During the conference, there were also several participants who disagreed with the majority. They said the construction of the project at a point in [word indistinct] the country is reducing its capital construction cost will only drive the inflation rate skyward again.

The opponents of the scheme suggested that small and medium-sized projects on the tributaries in the upper reaches of the river be built first, and control of Yangtze [words indistinct] strengthening improving water and soil conservation and the construction of [word indistinct] discharge areas.

According to specialists, the feasibility study reports will be delivered to a special committee for assessment and then the State Council will make a final decision on whether China will launch the project or not.

**Economic Experts Appraise Three Gorges Project**  
*OW3011045888 Beijing XINHUA in English*  
1303 GMT 28 Nov 88

[“Editor’s note: This is the last of an 11-part series on the Three Gorges Project: Overall Economic Appraisal of the Three Gorges Project”—XINHUA headline]

[Text] Beijing, November 28 (XINHUA correspondent Fu Pingping)—A panel of Chinese experts is in favor of going ahead with the Three Gorges Project, and the sooner the better.

The panel, consisting of 60 economists, scholars, professors, and officials from 27 related departments, reached this conclusion after conducting feasibility studies on a comprehensive economic appraisal of the project.

They pointed out that the Three Gorges Reservoir, with a storage capacity of 22 billion cu m, can help reduce the Yangtze River’s perennial flood threat.

Generators with a total capacity of 17.68 million kw producing an average of 84 billion kwh of power every year will be able to be installed at the reservoir.

The reservoir will also improve the navigation channel in the Chuanjiang River section on the upper and middle reaches, and increase the ship passing capacity five times.

Experts calculated the costs and benefits of the construction. They also compared these with other possible projects for harnessing the river before they concluded that the Three Gorges Project would give better economic returns in meeting the comprehensive needs of national economic development.

The result of their financial analysis showed that, despite the heavy cost and long construction period, the project would generate a great deal of power and immediately worthwhile benefits. If the electricity is sold at a reasonable price, the project will be able to pay off loans and interests the second year after completion. Even if the power is sold at the present unreasonably low price, they said, the loans and interests could be paid off about 10 years after completion.

The scheduled construction period is 18 years. The panel invited research institutes to conduct systematic analyses on the influence the project would exert on the national economy and China’s ability to undertake the task.

Both analyses confirmed that the construction of the project will not affect the country’s aim of quadrupling its Gross National Product (GNP) by the year 2000 on the basis of 1980.

The total cost of the construction of the project will account for about 0.3 thousandths of the GNP during the construction period.

Therefore, they noted that, if the guiding principle of ensuring the construction of key projects is followed, the country will be financially able to construct the project. It will also be able to produce the building materials, because the quantity of material required is less than needed in hydropower stations or thermal power plants with the same capacity.

In a word, experts said, the construction of the project will only slightly affect the development of national economy, but it will bring enormous benefits when the generators start to produce power.

The longer the construction period is postponed, the more difficult and costly it will be. So the experts also proposed that it is more beneficial to start the construction early and recommended an early decision from the Government.

It was estimated that the total cost of the project will be 36.1 billion yuan based on the value of the late 1986 yuan. The experts studying the comprehensive economic appraisal held that the money could be obtained from various channels.

However, there were also some experts and scholars who insisted that China can’t build such a huge project at this stage when the country is now reducing its investment in capital construction.

They also held that the construction of the Three Gorges Project will exert an unfavorable influence on the under-going drive to rectify the country’s economic environment and economic order.

They suggested that small and medium-sized projects on the tributaries of the upper reaches of the river be built first.

The final report is now being examined by an ongoing meeting of the Feasibility Studies Committee.

## FOREIGN TRADE, INVESTMENT

**Minister Signs Agreement With Malaysia on Joint Economic, Trade Commission**  
*OW2211225488 Beijing XINHUA in English*  
1642 GMT 22 Nov 88

[Text] Hong Kong, November 22 (XINHUA)—Malaysia and China signed an agreement in Kuala Lumpur today on the setting up of a joint economic and trade commission, according to an OANA-BERNAMA report from the Malaysian capital.

The agreement was signed by Abu Hassan Omar, Malaysian foreign minister, and Zheng Tuobin, the Chinese minister of foreign economic relations and trade.

Zheng arrived in Kuala Lumpur on Sunday for a week-long visit to Malaysia.

Abu Hassan said the commission is the best forum to examine, promote and review increasing trade between the two countries. He was also confident it will prove to be a significant mechanism in strengthening Malaysia-China bilateral relations.

Today's agreement is the fourth pact signed between the two countries since they established diplomatic relations in 1974, the report said.

Zheng also signed an investment guarantee agreement with Malaysian Trade and Industry Minister Datin Paduka Rafidah Aziz on Monday.

**UK Joint Venture To Produce Asthma Drug**  
*HK2311103588 Beijing CEI Database in English*  
23 Nov 88

[Text] Beijing (CEI)—An agreement to form a joint venture in China to manufacture a drug for asthma was signed here on November 22 between Glaxo, a British pharmaceutical company, and two Chinese companies.

The 50-50 equity venture will involve an investment of 10 million U.S. dollars and it is expected to go into production in 1991 with an annual output of 6 million aerosol inhalers.

It is also announced that the latest in high technology equipment will be installed in the plant, which will be built on vacant land in Chongqing, Sichuan Province.

**Nongovernmental Enterprise Wins World Bank Loan**

*OW3011074788 Beijing XINHUA in English*  
0748 GMT 28 Nov 88

[Text] Beijing, November 21 [date as received] (XINHUA)—A nonstate enterprise in China was the winner of competitive international bidding for World Bank loans last week.

The Syntone Electronic Group, AEW Technology Development Corporation, run by a group of Chinese computer scientists, was awarded 2 million U.S. dollars in World Bank loans for its successful computer design—to be used in the development of higher learning institutions in China.

According to the contract, the corporation will provide 1,000 sophisticated micro-computers to 60 universities throughout China before next June.

The company's Syntone Computer, which requires less than one-third of normal desk space to install, beat out such powerful competitors for World Bank support as IBM and NEC with its high-quality components with strict performance standards, according to Wang Yaxiang, deputy general manager of the China National Technical Import and Export Corporation.

**JINGJI RIBAO Views Technology Exports**  
*HK2212152888 Beijing JINGJI RIBAO in Chinese*  
28 Nov 88 p 3

[Article by Wang Zhixi 3076 3112 3556, deputy director of the Technology Export and Import Bureau of the Ministry of Foreign Economic Relations and Trade: "Technology Export—a New Topic"]

[Text] Over the past year or so, with the implementation of the policy of opening up to the outside world, China has imported a great deal of technology from abroad. The volume of software and hardware trade has totaled about \$20 billion. This has forcefully promoted the development and progress of our technology and economy. However, technology export in an organized way is still a fresh matter in our country. It was started only about 3 years ago. In 1986, the State Council formally entrusted the Ministry of Foreign Economic Relations and Trade and the State Science and Technology Commission to take charge of the work concerning technology exports. Thanks to the common efforts of the various departments concerned some initial successes have already been achieved.

Through technology exports we will be able to expand foreign trade, earn more foreign exchange, and improve the structure of our export commodities. Our present ability to earn foreign exchange through export is still rather weak. The main reason is that the technological content of our export commodities is still very low. Only by vigorously promoting technology exports to bring along the exports of relevant products and equipment can we achieve a greater breakthrough in foreign trade.

Technology exports can also help promote various forms of foreign economic cooperation like exporting complete sets of equipment and labor, contracting foreign projects, joint ventures, and processing materials supplied by foreign businessmen.

Through technology exports the enterprises will be faced with an international market full of capable rivals. They will thus make greater efforts to improve their technologies. Moreover, through technology exports the prestige of our country will be raised and the self-confidence of our nation will be enhanced. The idea which holds that everything in China is backward and that the Chinese can only be buyers and never sellers in the international technology market is entirely wrong.

Of course because China is still a developing country, generally speaking, there is still a big gap between its economy and technology and those of the developed countries. In order to speed up the development of our technology export trade we must adopt the following measures:

First, we must select some technological products for export in light of our superiority in that technological field. Our enterprises, scientific research units, and universities and colleges are all important sources for these exports. It is necessary to bring their potential into full play in light of the needs of the international technology market and select relevant products for export.

Second, it is necessary to give wide publicity to our export technology products and open up more export channels. For example, to promote our technology exports we can try to contact our customers through our own efforts, attend international technology fairs and exhibitions, hold technology trade fairs in foreign countries, or establish a network of overseas sales agents.

Third, we must work out a series of preferential policies to encourage technology exports. The state should have preferential policies on technology exports regarding funds, retained foreign exchange, and taxation, and should lift certain restrictions on export items and contracts.

We should realize that technology exports are often closely related to the export of technology products (hardware). A common practice in the international technology market is to export technology products before the export of technology. As to the transfer of technology, the developed countries usually transfer to other countries those technologies which are of little value in their own countries, those which are unable to cause their products to monopolize the international market, or those which are limited by time and regions. This is an important experience for us in technology export.

#### **Tips Given on Export Sales of Light Manufactures**

40060160b Beijing GUOJI SHANGBAO in Chinese  
29 Nov 88 p 3

[Article by Special Correspondent Li Fenghua 2621 7364 5478: "Good Prospects for Light Industrial Manufactures Market in 1989—Ready Market for Four Small Products; Packaging in Gift Form; Light, Thin, Short, and Small Items Find Favor; and Athletic Equipment Sells Well"]

[Text] World trade in light industrial manufactures has grown more rapidly than world trade in general during the past several years. Exports of light industrial manufactures from rising industrial areas such as the "four small Asian tigers," [Hong Kong, Korea, Singapore, and Taiwan], Brazil, and Mexico have expanded rapidly,

their exports increasing by more than 10 percent annually. In addition, a fundamental change has taken place in the product mix in world trade today. Countries that formerly exported light industrial goods have become importing countries. The major areas for sales of light industrial wares today are industrially advanced countries and regions such as North America, Europe, Japan, Australia, Taiwan, Hong Kong, and Macao, rather than the Third World. This is because industrially advanced countries mostly concentrate on the development of high technology products and have taken to the importation of labor-intensive light industrial manufactures. However, as a result of the change in recipients of exports, world markets make two major demands on the production of light industrial export goods. Production of light industrial manufactures must be in response to the market and must keep pace with scientific and technical progress and the rise in the standard of living of advanced industrial nations. This demands constant changes in varieties and styles of products. Products must be of high quality and high class, be name brands, be of novel design, and be packaged attractively. Otherwise, they will not readily find a market.

The past several years have seen a sustained and substantial increase in the production and export of Chinese light industrial manufactures. In 1986, for example, the value of exports was 28 percent higher than in 1985, and in 1987 their value increased 23 percent over 1986. In 1988, the volume of export transactions was also rather good. The volume of export transactions in household wares and the volume of export transactions at both the spring and autumn trade fairs was rather brisk. Take the 1988 autumn Guangzhou Trade Fair, for example, where the value of transactions was 24.1 percent larger than for the same fair in 1987. In terms of commodities involved, bicycles, sewing machines, metal containers, hardware used around the home, shoes, luggage, leather goods, and recreational and sports equipment were very much in demand. In terms of markets in which the largest amount of sales were made, with the exception of the United States in which the volume of transactions declined from the autumn of 1987, sales increased to Hong Kong and Macao, Japan, the Near East, African oil producing countries, and the European Common Market.

During 1989, there were signs of a slowing in world economic development, and in the United States, in particular, the economy may slow even further. However, provided no special events occur in the world, there will be no tremendous change from 1988 in the world light industrial manufactures market during 1989. This is because the world economy will continue to increase slowly, and people's incomes will continue to increase relatively, while at the same time light industrial manufactures are indispensable to daily life. Therefore, prospects for development of the light industrial manufactures market remain good, and a certain amount of increase can be maintained as well. However, there will be changes in the product mix and in the trend of demand as follows:



1. The four types of small products (small sundry goods, small hardware, small cultural and educational products, and small leather items), name brand products, high quality products, and specialty goods will continue to enjoy good sales.

2. More gift wrapping will have to be used in the packaging of goods. This is because in today's world, gifts are an inseparable part of people's social life. Not only do most people give gifts on special occasions such as weddings, birthdays, the birth of children, when visiting friends, and when people move into a new home or receive a promotion, but it is also extremely common in the course of daily life to send a gift as an expression of gratitude or good feeling.

3. Light, thin, short, and small articles will be more readily salable. This is because of the varied needs of society, and short product life. People no longer like heavy, thick, long, and big articles. Furthermore, development of the world's tourism industry also calls for "light, thin, short, and small" industrial wares, which can be easily carried, for use in daily life. Examples include the design of articles such as alarm clocks, cameras, radios, electric hair blowers, electric irons, office items, first aid items, water gear, and cleaning equipment. Packaging must permit easy carrying by tourists.

4. The market for athletic equipment looks good. Accompanying development of the world economy is an increase in people's spare time activities, gymnastics, and various forms of athletic activity. The market for various gymnastic equipment such as balls of various kinds, machines, sports clothing, travel tents, and inflatable sleeping bags, as well as pleasure boats, paddle boards, and fishing tackle will develop rapidly. The forthcoming 11th Asian Games to be held in Beijing in 1990, and the 25th Olympiad to be held in Barcelona, Spain, in 1992 will also provide a fine opportunity for the export of physical education equipment.

In view of the world trade and world light industrial manufactures trade situation, as well as the good situation resulting from the pervasive implementation of China's reform policy and the policy of opening to the outside world, if we do our export work well, better achievements can be made during 1989 in China's export of light industrial manufactures.

**Building Materials Export Bases Planned**  
*HK2911121188 Beijing CEI Database in English*  
29 Nov 88

[Text] Beijing (CEI)—China's State Bureau of Building Materials Industry is planning to cooperate with foreign investors in establishing the following building material exporting bases:

—Cement exporting bases in the vicinity of the Yangtze River, Bohai Sea Gulf and Pearl River;

—Nonmetallic material exporting bases, including graphite, talcum, kaolin, and stone materials Shandong, Liaoning, Jiangsu, and Fujian Provinces and the Guangxi Zhuang Autonomous Region;

—Glass exporting bases in Dalian, Xiamen, Rizhao City in Shandong Province, Beihai City in Guangxi Zhuang Autonomous Region, and the newly established Hainan Province;

China will also cooperate with Japanese companies to set up a cement production line with a daily output capacity of 4,000 tons in Dalian and Nanjing, and a glass production line in Dalian, which is expected to produce 500 tons of glass every day.

**Henan Meeting Discusses Improving Foreign Trade**  
*HK2111032588 Zhengzhou Henan Provincial Service*  
in Mandarin 2300 GMT 20 Nov 88

[Excerpts] On 19 November, the provincial government summoned responsible persons of provincial departments and bureaus concerned and foreign trade enterprises, and people in charge of foreign trade work in 17 prefectures and cities to discuss the questions of how to resolve in a coordinated way certain contradictions in Henan's foreign trade development and probe new ways of developing foreign trade and exports in the next 2 years. Governor Cheng Weigao chaired the meeting. [passage omitted]

At the start of the meeting, (Li Aimin), chairman of the provincial commission for foreign economic relations and trade, put forward ideas and proposals on developing export commodity production and expanding foreign exchange earnings from exports. He said: First, we should identify export goals and an export commodity development strategy suited to the province's realities. Second, we should further strengthen combinations of industry and trade and agriculture and trade, open up more international markets, and actively inform the productive enterprises of trends in the international market, provide commodity information, and ensure high-quality services. While consolidating our traditional export commodities, we should strive to develop new commodities, develop in-depth processing of commodities, and set up export commodity production bases. [passage omitted]

**Inner Mongolia Reports Increase of Exports**  
*SK1512083988 Hohhot NEIMENGGU RIBAO*  
in Chinese 26 Nov 88 p 1

[Text] Thanks to the concerted efforts of various foreign trade companies and production enterprises throughout our region, its total volume of exports had reached \$199.23 million by the end of September this year, showing an increase of 21.32 percent over the base export quota and an increase of 36.36 percent over the same period last year.

**Shaanxi Checks Contracts With Foreign Firms**  
*HK0212052588 Beijing ZHONGGUO XINWEN SHE*  
*in Chinese 0348 GMT 30 Nov 88*

[Report by Zhang Ke 1728 3784 and Wang Jianren 3769 1696 0088]

[Text] Xian, 30 Nov (ZHONGGUO XINWEN SHE)—Before Shaanxi Province held the second international talks on economic and technological cooperation, the province had checked some 10,000 business contracts concluded and signed with foreign firms during the 3 years from the first talks held in 1985 to last year.

The province has made great progress in economic cooperation with foreign countries, and trading partners have spread all over some 100 countries and regions abroad and have introduced some \$1 billion in recent years.

The results in checking the business contracts signed with foreign firms this time show that the number of contracts containing problems or questionable points is less than 10 percent. Proper measures have been taken to remedy some of them, and the parties concerned have recovered economic losses of approximately \$4 million.

According to a report, the problems discovered in this check are: Proof of the feasibility of individual cooperative projects is insufficient, and foreign capital, technology, and equipment are introduced blindly to a certain extent; the creditability of foreign firms is insufficiently investigated, trust being readily placed in the other party; some contracts omit important clauses and are full of loopholes; and the government management of export is not strict, giving the Chinese and foreign firms in cooperative projects opportunities for collusive foreign exchange and tax evasion.

It has been disclosed that prior to the talks this time, agreements on some dozens of important cooperative economic projects had been concluded and signed and the majority of the cooperative projects are being negotiated.

**Shandong Exports, Foreign Investment**  
*SK0912060188 Jinan DAZHONG RIBAO*  
*in Chinese 22 Nov 88 p 1*

[Excerpts] Since the beginning of this year, our province has conscientiously implemented the strategy for the economic development of coastal areas, put forward by the central authorities, and the overall arrangements of the provincial party committee and government for "opening the eastern area, developing the western area, and coordinating the eastern with the western areas for a common development," thus taking an important step forward in foreign economic relations and trade. Both

the eastern opened area and the cities and prefectures in the western area have witnessed new developments in the export-oriented economy. Major characteristics are as follows:

Foreign export trade maintained a stable growth despite a large reduction of the exports of petroleum and other primary goods by the state. By the end of October, the province had earned \$2.548 billion through foreign export trade, equivalent to 102.4 percent of the state-assigned target. If the foreign exchange earned through export of petroleum is excluded, the amount is \$2.049 billion, showing a 10-percent increase over the same period last year. The structure of export commodities was improved with the increased proportion of electronic and machinery products and industrial products.

New progress was made in foreign capital utilization. By the end of October, contracts for 274 foreign capital utilization projects had been newly signed, the total transactions were \$230 million, and the actual amount of foreign capital utilized was more than \$61 million, showing an increase of 107, 125 and 19 percent, respectively, over the same period last year. Fifty-seven government loan projects involving \$230 million were approved by the Ministry of Foreign Economic Relations and Trade and affirmed by the governments of both sides. The amount of loans was some \$60 million more than the total amount of the preceding 3 years. A total of 111 foreign-invested enterprises were newly approved, 63 more than the number of enterprises approved last year. So far, the number of foreign-invested enterprises in our province has reached 237. The proportion of foreign investment also showed a substantial growth. In all the projects, the average amount of foreign investment increased from the past 35 to 47 percent. Establishment of three enterprises run exclusively with foreign funds was also approved. The number of prefectures and cities where joint ventures are located grew from 11 to 14. Processing and assembling with materials and specifications provided by foreign firms, and compensation trade developed fairly rapidly. From January to October, the province approved 147 such import-processing and compensation trade projects, and the amount of foreign capital involved was \$118 million, much more than any preceding years. [passage omitted]

Construction of the development zones accelerated. A total of 384,600,000 yuan has been invested in the Qingdao and Yantai economic and technological development zones, each of which has basically completed the infrastructural facilities within the area of 1 sq m. The two development zones approved 134 projects concerning investment from abroad and lateral ties at home, with the total investment investment reaching 756.7 million yuan. Of these projects, 38 concerned foreign investment. The total transactions were \$105.7 million, and \$60.69 million in foreign investment was absorbed. Sixty-six projects have been put into operation, and \$23,500 in foreign exchange has been earned. [passage omitted]

## ECONOMIC ZONES

**Report on Foreign-Funded Enterprises in Hainan**  
*HK2811053688 Beijing CHINA DAILY (BUSINESS WEEKLY Supplement) in English 28 Nov 88 p 1*

[Text] By the end of October, 354 foreign-funded enterprises had been set up in Hainan Province with an investment totalling \$400 million.

Both these figures surpassed the total for the past eight years.

The largest investors are the Chia Tai Co Ltd from Thailand and the Hong Kong-Macao International Investment Company. The Chia Tai Company will invest \$300 million in prawn breeding, and the Hong Kong-Macao venture has already invested \$82 million in a power station project.

**Shenzhen Registers 200 Incorporated Enterprises**  
*HK2811123488 Beijing CEI Database in English 28 Nov 88*

[Text] Shenzhen (CEI)—A total of 200 incorporated enterprises have been registered in Shenzhen so far.

These enterprises collected 245 million yuan, of which 183 million yuan were through shares distribution.

They include incorporated enterprises with legal persons as the major share holders, collectively-owned scientific and technological enterprises, privately-owned and township enterprises.

Shenzhen started to introduce the share-holding system in 1985.

## POPULATION

**Birth Control for Transients Viewed**  
*HK0612024588 Beijing RENMIN RIBAO in Chinese 30 Nov 88 p 3*

[Article by RENMIN RIBAO reporter Xie Lianhui 6200 5114 6540: "The Views of the Host and Guest Households in 'Zhejiang Village' Toward Family Planning—A New Population Issue Brought About by the Transient Population in Beijing"]

[Text] In the waiting room of the Beijing Railway Station, a 30-year-old peasant woman was surrounded by five children; the woman living in the builders' temporary shed had two children when she came to Beijing last year, now she is pregnant again...

Since the national policy of family planning has been made known to every household, why have they given birth to so many children?

The reporter paid a visit recently to people from other localities residing in the Nanyuan's Guoyuan village in the Beijing suburbs.

### The Two Different Types of Reward and Punishment Methods

There are around 1,000 people from other localities residing temporarily in Guoyuan village who are engaged in industrial or commercial businesses. Some 90 percent of these people who come from Zhejiang's Leqing county are engaged in garments processing. As the number of people from Zhejiang outstrips that of the local villagers, this village is called "Zhejiang village."

With the rapid development of the rural industry, Guoyuan village has become relatively well-off in recent years. The head of the village said that a laborer can earn 2,000 to 3,000 yuan a year. If the monthly rent of 200 yuan is added, they can lead a better life.

Leqing county, which took the lead in developing a commodity economy, was also rich. No wonder the people who came to Beijing from Leqing county said: "Affluency in our home village is more or less the same here."

The well-off peasants of both localities encountered the same problem: More people and limited arable land. Guoyuan village had around 1,000 people but only 400 mu of vegetable plots, an average per capita of less than 4 mu of land. The average per capita possession of cultivated land in Leqing county was also around half a mu. They have realized the importance of arranging social production and population in a planned manner and using common sense to overcome the desire for getting more children after they have become well-off.

Guoyuan village, which carries out collective production, made the following stipulations concerning family planning: Each couple is allowed to give birth to only one child. Those who give births to additional babies without special reason and approval will be urged to take a ligation operation and will have a fine imposed. These couples will have to hand over 40 percent of their monthly income to the village successively for 14 years. Over the years only two or three households gave birth to a second child in violation of the stipulations, and they are still paying the fine.

While encouraging young peasants who are proficient in a particular line to engage in relevant trades outside the village, Leqing county, which undertakes contracts on an individual basis, also urged each couple to give birth to only one child. The county stipulated that the couples with only one daughter may give birth to another child at an interval upon approval of their application. Those who violate the stipulation will be fined 500 to 1,000 yuan for giving birth to each additional child.

The people from Leqing said frankly: This stipulation is strictly enforced in our hometown. Some villages even sent representatives to Beijing to deliver the fines for giving birth to additional children and encouraged the villagers to have a ligation operation. However, it would be difficult for the hometown to exercise management over them when they are working outside. As we go from place to place and cannot get contraceptives, nobody will know if we give birth to a second or third child. Even if the hometown is informed, we just have to pay a fine.

#### The Two Different Kinds of Reproduction Mentality

Some of the people from Leqing who are now in the "Zhejiang village" have four to five daughters. They refuse to stop even after they get a son. The practice of giving births to additional children is serious here.

Why do they insist on getting sons and why are they giving births to more children even after they get a son?

Some say that the peasants have no pension and the daughters will all be married. Without a son, the parents will have no one to depend on when they get old. If they become a household enjoying five guarantees, they will be despised by others.

With more sons, others said, the situation is completely different in the rural areas. If you have five sons, your neighbors wouldn't dare bully you and you can straighten your back.

According to some people's analysis, with more children the elder one can take care of the younger and the financial burden is not so heavy. When a girl is around 12 or 13, she can take care of her younger brothers and sisters, make clothes with a sewing machine, and earn money for her parents.

The Guoyuan villagers' answer to the question is entirely different.

They said that very few people in the village regard men as superior to women. In the past the villagers were also influenced by the views of "bringing up children to support their parents when they become old" and "more happiness with more children." As each couple is allowed to give birth to only one child now, people do not mind whether the baby is a boy or a girl. With the improvement in living standards, many villagers have thought of giving birth to a second child, regardless of the 10,000 yuan fine imposed. When the country's large population and limited arable land are taken into account, however, they give up such an idea.

Regarding the families with only a daughter, they said that the elderly, both men and women, at or above the age of 60 can get a subsidy of 40 yuan a month. Those who are healthy can serve as a caretaker of a rural enterprise or granary, earning 100 yuan a month. This is enough for their living expenses. Moreover, when a

daughter is married she knows more than a son does about how to take care of her parents. Hence, the villagers have realized that girls are as good as boys.

The attitude of some people from Zhejiang toward their daughters is indeed unfair. The villagers of Guoyuan said that their sons are like "emperors." They can beat their elder and younger sisters at will, take meals first, and give the leftovers to their parents and sisters. Besides being bullied, the daughters have to handle household chores. They have to do housework when they are 8 or 9 years old and learn to sew when they are around 13. The girls are really skilled in using the sewing machines. Although we are envious of their work, we prefer to let our children go to school.

#### The Two Different Types of Reproduction Concepts

When those from Leqing learned about Guoyuan's reward and punishment method, they put out their tongue, believing it to be inconceivable. In fact, if the reward and punishment methods of both Guoyuan and Leqing are compared, we can see that the method of Guoyuan is reasonable rather than too strict. In light of the measures adopted by the state to reward the urban couples for practicing family planning for 14 successive years and the characteristics of the rural areas, Guoyuan worked out measures to fine those giving birth to additional babies for 14 years. As reward and punishment are the means adopted to practice family planning, both of them are applicable. Moreover, the purpose of the method adopted by Guoyuan is to lower the living standard of the couples who give birth to additional children rather than depriving them of their means of livelihood. One of the essential reasons for the low growth rate in the economically developed countries in the West is the high costs of bringing up children. Living standards will be lowered if a family has too many children. Guoyuan simply made use of people's mentality which feared that their living standards might be lowered. However, there were too many defects in Leqing's family planning reward and punishment method. In the county the living standards of the inhabitants varied. Those with financial difficulties could not bear the fine and felt utterly helpless, while those who were well-off did not care about the fine, thus "legalizing" the practice of giving birth to additional children.

Regarding the reproduction mentality of the people from Leqing, those in Guoyuan shook their heads, also believing it to be inconceivable. People's thinking, concepts, and habits are changing along with social advance and the development of political, economic, and cultural lives. It is indeed strange for the people from Leqing who have a strong sense of a commodity economy and who are relatively well-off to shoulder such a heavy, traditional population burden in the new period. With the deepening of family planning work and the waning of the feudal patriarchal idea which regard men as superior to women, the people from Leqing who are engaged in industrial and commercial businesses and whose



incomes exceed several fold that of the average national level can definitely solve the problem of providing for the elderly through the collective public welfare undertakings or social insurance and extricate themselves from the bad habits.

The two kinds of reproduction concepts manifested in Guoyuan and Leqing have raised a series of question for society: How should we exercise management over birth control of the transient people? How should we perfect the rural family planning system? How should we free the peasants from the backward, traditional ideas?

## TRANSPORTATION

**Statistics on Locomotive Industry Released**  
*HK2211100788 Beijing CEI Database in English*  
22 Nov 88

[Text] Beijing (CEI)—China's 34 rolling stock plants manufactured 709 locomotives, 1,576 passenger carriages, and 20,000 freight cars during the first ten months of this year.

Of these, diesel and electric engines take up 70 percent and they make up 60 percent of all those on China's 52,000 kilometers of track, according to statistics released by the Ministry of Railways.

Being the world's second-largest locomotive producer after the Soviet Union, China has so far turned out more than 15,500 locomotives, 26,000 passenger carriages, and 441,000 freight cars.

Statistics from the ministry also show that the locomotive industry now accounts for 13 percent of the total railway investment, and about 600 electric and diesel engines from the United States and France have been imported since 1984.

This year a total of 800 million yuan will be earmarked for the manufacture of locomotives. During the Seventh 5-Year Plan (1986-1990) China will invest as much in the locomotive industry as the total spent on it during the 30 years before 1986.

**New Guangdong Port To Open to Foreign Ships**  
*HK2811052888 Beijing CHINA DAILY (BUSINESS WEEKLY SUPPLEMENT) in English 28 Nov 88 p 1*

[Text] A new port in Maoming city will be opened to foreign ships when a 10,000-dwt [deadweight ton] berth goes into operation.

The city, in southern Guangdong Province, is a centre of the petrochemicals industry.

In 1987 it was designated by the State Council as one of China's coastal economic development zones, and a farm produce export centre.

The waters in the port at Shuidong Bay are eight metres deep and relatively free from sediment. The port is 200 nautical miles from Hong Kong and 68 nautical miles from Zhangjiang, another big port city in Guangdong Province.

## PRC MEDIA ON FOREIGN ECONOMIES

**Goals of Soviet Economic Restructuring Evaluated**  
*40060129 Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 9, 10 Sep 88 pp 51-56, 43*

[Article by Chen Shengjun 7115 3932 6511, doctoral student in the Department of Economics and Politics, Chinese Academy of Social Sciences Graduate School: "An Evaluation of the Goals of Soviet Economic Restructuring"]

[Text] A famous Western sovietologist once said, in analyzing Soviet economic restructuring we must not just examine what the Soviets say but, even more importantly, observe what they do. However, I believe that it is also essential to undertake a theoretical analysis of the Soviets' reform plan. The problem, however, is that this analysis must not be limited to longitudinal, historical comparison, that is, to an attempt to identify the ways in which the current plan advances beyond previous reforms and to draw certain inferences therefrom, for this approach will lead us to wrong conclusions. For us, it is more important to analyze the goals of the current reform, and to do this in two ways. First, we must ask whether or not these goals are attainable in practice. Second, we must ask whether or not the goals can resolve the basic defects of the traditional Soviet economic system; in other words, should the goals serve as the ultimate objectives of the reform? If not, what should the ultimate objectives be? And how far do these objectives diverge from current goals?

As a comparative study, our analysis of current Soviet economic restructuring must first establish a scientific frame of reference, in other words, determine the optimum objectives of Soviet reform. Only thus can we measure the depth and thoroughness of the effort. Although, owing to different conditions, the specific measures countries adopt when they attempt economic restructuring may differ, sometimes greatly, I believe that all countries share common goals in the effort. So we may aver that whoever identifies and establishes these goals first, adopts appropriate measures, and staunchly advances in his effort will succeed in establishing an effective framework for a new economic system in the shortest possible time and at the least possible cost.

This article will attempt to analyze the goals of Soviet restructuring from this perspective.

## I

Reform is a form of conscious activity and thus requires goals. "Goals" here means the model of the new system that reformers wish to establish in order to resolve the major problems of the existing system. Thus goal selection is closely related to the effort to fix the fundamental defects of the old system. In the case of the Soviet Union's traditional, highly centralized, command-planning system, these defects are the inefficient deployment and use of resources. And the basic problem that Soviet economic restructuring must resolve is how to improve economic results.

Both the theory and practice of reform demonstrate that the basic defects of highly centralized planning systems cannot be resolved if the systems are not fundamentally restructured and instead are only "improved," "transformed," or mended in some other patchwork fashion. For centralized management by the state of millions of enterprises through detailed systems of quotas and norms is both unnecessary and impossible. As commodity producers, enterprises, in their microscopic activity, must enjoy full authority and bear complete responsibility. Only thus can they realize their intrinsic vitality and use resources efficiently. And in the area of resource deployment, centralized, planned distribution effected by the state suffers from the following two types of limitations. First are the limitations of available information, which is essential in order to formulate plans. Centralized planning requires a centralized information apparatus. In highly centralized planned economies, information flows vertically, complete centralization of information is impossible even if the most advanced computer technologies are employed, and it is often difficult to ensure the veracity (for enterprises often conceal their true productive capacities, stockpiles of raw materials and the like) and timeliness of the information (for transmission from one level to another causes delays). Second are limitations regarding the capabilities and preferences of planners. If planners' decision-making talents are limited, scientific plans obviously will be impossible to achieve. Moreover, planners are not entirely rational in their decision-making and can be affected by their own predilections. This is precisely what Kornai was referring to in his criticism of the (?Lang) model. "Lang's conceptualization of central planners is a recrudescence of Platonic philosophy. These men are to be the embodiment of complete selflessness, perfect impartiality, intelligence, and sagacity. They have no excessive expectations, strictly adhere to "regulation," and readjust prices wherever excessive demand arises. Such a supernatural administrative organ has never existed and will never exist. For government officials reflect social division of labor, are influenced by different interest groups, are plagued by internal contradictions, and seek to their advance their own personal or their own groups' interests, including the interests of the groups they represent."<sup>1</sup> Thus centralized planning systems cannot achieve optimal resource deployment, and

countries employing Lang-like models cannot replicate the efficiency of the marketplace in distributing resources.

Where, then, does the hope of reform lie? The crux lies in fundamentally changing the manner in which resources are deployed. No matter how many subcategories one theoretically might enumerate, there are two fundamental, major types of resource distribution—the market mechanism and centralized planning; all other variants may be classified under these two types. Thus the question of whether or not the goal of restructuring is to transform a planning system of distribution into a market system is the real yardstick by which we can determine if effort is genuine and thorough. The market mechanism functions in the following ways. It induces producers to shift resources to sectors boasting greater efficiency and thus optimizes resource deployment. Second, through price competition, it prompts producers to use resources more efficiently. The core of the market mechanism is the price mechanism. If prices are not reformed, if pricing mechanisms are not changed, and if no effort is made to switch from a system in which prices are set administratively to a system in which the marketplace determines prices, price relationships cannot be reordered, and the market mechanism cannot function properly, situations that are inimical to the proper operation and development of market economy.

To enable the market mechanism to function properly, we must change pricing mechanisms, which effort involves creating a set of accurate price signals, and we must make enterprises responsive to these signals, all of which desiderata presuppose thorough reform of the system of ownership. Essentially, enterprises function as the cells of the marketplace, and the marketplace serves as the arena in which enterprises are brought together. The market mechanism adjusts interests, regulates distribution of rewards through changes in prices, and thereby guides enterprise activity. Thus to make enterprises responsive to market price signals, we must ensure that they are governed only by the marketplace, that they have their own independent economic interests, and thus that changes in market prices directly affect their vital interests. And to recast enterprises into the main body of the market, we must restructure them microscopically, that is, we must erect a new system of equity ownership so as to delineate their spheres of activity. For the murky equity relationships within state-owned enterprises must be clarified and specified before firms can manage their own assets autonomously and possess their own independent economic interests and before their behavior can truly be restrained by the marketplace. Only thus can we cut the umbilical cord linking enterprise and state and transform the "father-son relationship." Then, and only then, will enterprises function properly.

## II

From the "Basic Principles of Fundamental Reform of Economic Administration" passed by last year's June plenum of the CPSU and the law of the USSR on state

enterprises (associations) passed by the Supreme Soviet, we may make the following generalizations about the new system Soviets wish to create. The state will create a rational price system and use guidance control figures, long-term and stable economic quotas (namely, remittance quotas budgeted by the state and quotas drawn up for wage compensation funds and economic stimulus funds), state procurement orders and ceilings so as to fix the relationship between the state and enterprises—that, is the sharing of profits and or revenues between the state and enterprises. Enterprises, in turn, will draw up their own production plans on the basis of these quotas and of state-set prices and will thereby manage themselves completely autonomously, raise all their own funds, bear full responsibility for all of their own profits and losses, and practice complete business accounting.

This model suffers from two fundamental problems. First are the prices with which enterprises will have to deal.

In market economies, enterprises may make two types of positive responses to market prices. First, they can adjust the prices of their products. In competitive markets, to increase profits, individual producers must reduce—not raise—prices, improve quality, or expand sales. It is precisely this price competition that prompts producers to improve management, technology, and labor productivity; reduce costs; and upgrade products, which efforts, in turn, serve to improve the efficiency of resource use throughout society. Second, enterprises may readjust their product lines, shifting resources into sectors that are more profitable, which ensures that society's scarce resources are effectively deployed. In traditional, centralized economic systems, however, prices are set administratively and are seriously distorted structurally, and as argued above, the state cannot set prices as rationally as the marketplace. Clearly, when price signals do not reflect resource scarcity and enterprises cannot readjust their long- and short-term production, prices cannot function to ensure rational deployment of resources and to ensure that enterprises compete on an equal footing, so enterprise behavior will not conform to economic rationality or to the good of society.

In this area, the Soviet Union is not attempting fundamental change. Although the "Basic Principles" and the State Enterprise Law did not set forth clear ideas on price reform, "The Basic Directions for Reform of the Pricing System under the New Administrative Mechanism," which was passed by the Council of Ministers, certainly did. From this decision, it is apparent that Soviet price reform basically amounts to a readjustment of current prices within the framework of the old system and seeks to effect an integrated reordering of the entire price structure—including wholesale prices for industrial goods, agricultural procurement prices, merchandise retail prices and various fee rates—in accordance with new pricing principles. Although these new principles stress that prices must also reflect product quality and

demand—certainly an advance upon the previous practice of taking only labor expenditure into account, this reform has not progressed beyond the confines of the old system and does not provide for fundamental change. The new policy might be regarded as good if it really represents a tactical change or a first step, in the direction of reform, that is designed to readjust the Soviet Union's severely distorted price system before the market mechanism is introduced, so as to avoid the violent price swings and severe shock that might result if the mechanism is suddenly imposed upon the country. But the policy is a pipe dream if it is actually attempting to establish a price system that reflects the relative scarcity of all resources.

As to the form of prices, the Soviet Union is trying to diversify its monolithic system, in which all prices are fixed by the state, and is preparing to implement a system consisting of three types of prices: centrally set prices, prices set through consultation, and prices set by enterprises themselves. Leaving aside the question of what the specific share of each of these price types will be, it is clear the system itself is headed in the same disastrous direction as the "three types and four classes of prices" employed by Hungary. If the proposed system is truly implemented, the Soviet Union inevitably will suffer the same defects that plague the Hungarian price system. The proposed system is bound to create legal pretexts for administrative interference in regular enterprise operations and cannot create a truly rational price system. Price relations among the various products in an economy constitute a system in which all related prices are interdependent. As Kornai has said, "The distortion of important elements of a price system invariably will skew the entire system, ultimately rendering it completely arbitrary." And thus, "Either theoretically or empirically, there is no indication that a series of partial and piecemeal price reforms can create a price system that is generally distortion-free and rational." Such reforms are nothing more than "a drift from one irrational price system to another."<sup>2</sup> We would do well to take Kornai's remarks concerning Hungary's experience with price reform under advisement.

Clearly, Soviet price reform by no means envisages prices as a mechanism with which to effect resource deployment but rather as an "economic tool or measure" that can be "applied flexibly" and thus fails to address the issue of changing the method by which resources are deployed. This failure demonstrates that the Soviet Union's entire economic restructuring program is shallow at best, certainly not fundamental or thorough, a fact that is borne out by a statement made by Boris Kulashvili [1655 2139 0087 4850 0448], senior researcher at the USSR Academy of Sciences, Institute of State and Law: "Despite adoption of the State Enterprise Law, reform has failed to advance beyond the most preliminary stage. Most inappropriate and dangerous, as far as the long-term prospects of the Soviet economy are concerned, is the fact that no recognition is given to the omissions and the contradictory and transitional nature

of the approved legislation. The decisions are the result of tentative compromises hammered out between radicals and conservatives and between advocates of thoroughgoing reform and reluctant bureaucratic agencies."<sup>3</sup>

### III

The second fundamental problem concerning the goals of Soviet reform lies in the quotas enterprises face. Under the Soviet Union's traditional economic system, enterprises were abacus beads that clicked and clopped at every beck and call of their superiors, who employed all sorts of plans and orders to manipulate them, and lacked autonomous decision-making authority, their own interests and their own responsibilities and thus faced no external competition and possessed no internal motivation. In this respect, Mr Gorbachev's reforms seem to have gone a bit further than previous reform efforts and appear to envisage making enterprises manage themselves, raise their own funds, bear responsibility for their own profits and losses, practice full business accounting, and become true commodity producers. This, then, is the real cream of his reform goals. His basic approach has been to replace command planning with "long-term stable economic quotas" (control figures that are explicitly defined as guidance in nature), which are supposed to enable enterprises to extricate themselves from their status as administrative appendages. Regrettably, however, no major steps have actually been made to expand enterprise autonomy. On this issue, that astute Soviet scholar, Dr. Boris [as published], cited above, has made two succinct points.

1. The State Enterprise Law only seems to abandon command planning. Article 10, Section 3 states that control figures "are not commandist, and labor collectives should not be constrained by the figures when drawing up production plans." Yet Article 9, Section 1 says that superior agencies may "set" and "issue" control figures to enterprises and may reward or penalize enterprises in accordance with the latter's performance in meeting the figures. Clearly, if enterprises ignore the figures, the efforts of the agencies that set and issue the figures would be in vain, and that would be "intolerable." Thus the figures are actually quotas that must be fulfilled, which simply amounts to a "transformation of overt to sheepish command planning."

2. In view of the regulations governing state procurement, exchange relations between the state and enterprises will not really be equalized. Article 10, Section 3 of the Enterprise Law provides that "enterprises must work state procurement orders into their own plans, which must be submitted to the state for approval." Thus enterprises may not reject state orders that are detrimental to them economically.

This in fact makes it impossible for enterprises to readjust production and shift spending as the market dictates. If they lack even the authority to decide their own production, they have lost their most important prerogative. So how much autonomy will they really enjoy?

The issue is not limited to whether or not, in principle, command planning is abandoned but includes whether or not quota management, in practice, is feasible and rational. This later question is key to the success or failure of the Soviet Union's new system.

How will the state formulate long-term, stable economic quotas? By setting unified norms for each industry or sector? Or by drawing up varying targets for each enterprise according to the actual conditions obtaining in each? On this point, the Soviet reform program has provided no specifics.

If it is to be unified industrial or sectorial norms (which presumably is what will happen, as reform documents, when read between the lines, seem to suggest that this is the ideal and the ultimate goal, and since such quotas clearly can only be relative), then problems will abound. First, enterprise revenues or profits will be determined not only by prices but also by the objective circumstances confronting each firm. Thus, even if we disregard price problems for the moment, it is apparent that enterprise revenues or profits will be determined not only by the quality of management but also by existing technological levels, equipment endowment, labor quality, raw material supply channels, and various other factors. It is manifestly unfair for enterprises to be assigned the same long-term, stable economic quotas at the outset of reform, when conditions in each varies greatly. Soviet authorities are aware of these problems and in fact have proposed specific measures to deal with them: "In setting enterprise profit or revenue remittance quotas, we assume similar demand for production resources and therefore adopt fee payment quotas for production funds, labor resources and natural resources."<sup>4</sup> This approach, however, will by no means be easy to carry out (for reasons I shall address below), and the irrational price structure will make the fee payment quotas for each sector irrational. Moreover, what is to be done about enterprises that lose money? Such firms obviously will not be sharing profits with the state. If all enterprises in the same industry or trade are assigned the same revenue remittance quotas, firms operating in the red not only will not receive state subsidies but will also have to make fixed payments to the state. This suggests that money-losing firms will be shut down and that their workers will lose their jobs, and the unified fee quotas for resource use will hasten the process, which will create a series of social problems. But so long as equity ownership relationships remain murky, enterprises and workers probably will not be very worried about firm closures and job losses, for they bear no liability for loss of assets. Thus closure, the extreme penalty, cannot serve as the ultimate restraint on enterprise behavior. But if money-losing firms are exempted from paying the quotas, that would be something else again.

If, on the other hand, quotas are set by enterprise, the following problems might arise. First, planning departments might revert to the old practice of setting elaborate quotas for every minute detail. Second, this practice



clearly will make competition unequal, which will lead to the tendency to whip the fast ox and to protect the laggard. Third, as the state goes through the process of setting enterprise quotas, firms will try to conceal their real situations and to bargain with the state, and their ability to obtain advantageous quotas will depend on their horse-trading skills. Thus enterprises will end up trying to manage themselves with one hand and to deal with their superiors with the other, which will make it impossible to regulate their behavior and to bring their internal motivation into full play. Fourth, setting quotas in accordance with existing conditions in enterprises would be tantamount to admitting the rationality of the existence of each and every firm as well as the rationality of the current economic structure, which would make it impossible to restructure the skewed system that was created by the traditional development strategy. Fifth, so long as enterprise equity relationships remain murky, the potential ultimate restraint on enterprise behavior will have no effect, so managers and employees will have no incentive to take the long-term development of their firms into account. Thus we can aver that administering enterprises through quotas will not serve to strengthen enterprise accumulation and technological improvement mechanisms. And if the program to have enterprise leaders elected by worker conferences is implemented, the leaders will be forced to focus on increasing salaries so as to win employee support and thereby stay in office. And this is bound to make enterprise behavior short-sighted and directed toward immediate gains.

What actually may be adopted may be a compromise approach, as in the case of the fee quotas, regarding which the Soviets, while ordering that a single, unified quota be assigned to "each enterprise in each sector (in the future, to all enterprises in all sectors)," have also stipulated that "money-losing and profitable enterprises may temporarily be exempted from paying the fees or may have their fees reduced."<sup>5</sup> Yet no matter what formula ultimately is adopted, the whole approach is irrational.

#### IV

In sum, like previous Soviet reforms, Mr Gorbachev's perestroika is not fundamental or paradigmatic, for it does not seek to move the Soviet Union from a planned system of resource distribution to a system that is governed by the marketplace. And although the Soviets have proposed letting enterprises set prices for some products, the range of goods involved is very limited, so such decontrol efforts will not create an economic mechanism that is rooted primarily in regulation through the marketplace. Moreover, as argued above, the establishment of various categories of prices will not create a rational system of price relations. Clearly, there a tremendous difference between this reform and China's unequivocal marketized model, in which "the state regulates the market, and the market guides enterprises." In this respect Soviet reform is behind China's.

Another reason why I say Soviet reform is not paradigmatic is that, in his effort to reform, expand the autonomy of, and enliven enterprises, Mr Gorbachev is taking the approach of separating ownership and management.<sup>6</sup> This approach was introduced long ago and is by no means new. Indeed, it can be said that the history of socialist economic restructuring efforts has been characterized by a constant search for the optimal separation of ownership and management. The pioneer of the effort, Yugoslavia, decentralized economic administrative authority and implemented worker self-management during the early 1950s, and all socialist restructuring during the 1980s has, without exception, followed this approach. Of course, there has been much progress in the way management and ownership are separated—from the previous practice of simply expanding enterprise authority, to contract systems, leasing systems and a variety of other forms of economic responsibility. And there have been advances in the degree to which ownership and management are separated—from the limited separation achieved when enterprise autonomy was expanded, to leasing systems, which provide for the most complete separation possible. Thus there is no essential difference between the reforms of Mr Gorbachev and Mr Brezhnev; it is just that Mr Gorbachev has been a little more daring and thorough in his effort to expand enterprise authority. The similarity lies in the fact that neither leader placed reform of the system of ownership on the agenda.<sup>7</sup> Experience has shown that the state invariably gets stuck between a rock and a hard place if reform is limited to expanding enterprise autonomy and to profit retention, if the system of ownership is not changed and if enterprise equity relationships are not clarified. For if too little authority is granted to enterprises, they will not be freed from the fetters imposed by administrative agencies and will never be able to invigorate themselves. And if too much authority is granted, the state will lose control of enterprises which, bearing no liability for their assets, invariably will pursue short-term gains. This not only will lead to short-sighted behavior throughout the economy but will also reduce the entire economy to chaos. And whenever this happens, administrative interference has to be strengthened, so that enterprise autonomy is reduced back to nil.

Thus the basic way to resolve this contradiction is to reform the system of ownership. If equity relations within enterprises owned by the whole people are not changed, enterprise behavior cannot be rationalized and market actors geared to market economy will not develop. This is so for the following three reasons.

First, proper functioning of market economy presupposes the existence of market actors that possess, use, derive income from and discipline enterprises and their assets. In the absence of such actors, enterprises are unable to dispose of their assets, either by transfers of equity through the marketplace, by taking over other firms, or by shifting production factors to other sectors. And thus the market mechanism will never be able effectively to deploy resources even if perfect market systems are established.

Second, enterprise authority and risk are incongruent. When equity relations are clearly defined, there will be a proper balance between the authority wielded and the risk borne by enterprises. For should an enterprise go bankrupt, the owners having claim to its assets will bear full economic liability therefor. It is precisely this liability that forces equity owners to stay constantly informed about the firm's operations and all its risks, and this fact serves as a direct constraint on enterprise activity. The equity relations of enterprises owned by all the people under socialism, on the other hand, are blurred. Nominally, the assets of such firms belong to the people collectively, but in fact nobody really owns the firms. Instead, ownership is exercised by the state on behalf of the people. But the state is embodied as particular government agencies or their officials. So although the officials of government agencies serve as representatives of enterprise owners, they are by no means true owners in their own right. Thus the authority and liability of enterprises owned by all the people are incongruent in two ways: Neither managers nor government officials acting as owners' agents bear any economic liability for enterprise assets, which liability therefore cannot function as an ultimate restraint on enterprise behavior. Thus talking about having enterprises bear full responsibility for their own profits and losses is just bunk.

Third, the lack of asset liability restraints means that enterprises invariably will not concern themselves with increasing their assets and growing as firms, will lack internal accumulation and technological improvement mechanisms, and will even indulge in rapacious operations, which means that short-sighted behavior is inevitable. Enterprises may also take irrational risks and thus disturb the entire economy and prevent it from operating properly.

#### Footnotes

1. Kornai (Hungarian), "A Comparison of Idea and Reality in Economic Restructuring," translated in JINGJI SHEHUI TIZHI BIJIAO [COMPARATIVE SOCIOECONOMIC SYSTEMS] No 6, 1988.

2. Kornai (Hungarian), "Macropolicy Reform: Hungary's Economy," translated in JINGJI SHEHUI TIZHI BIJIAO [COMPARATIVE SOCIOECONOMIC SYSTEMS] No 4, 1986.

3. See JINGJI XUE YICONG [COLLECTED ECONOMICS TRANSLATIONS] No 3, 1988.

4. Ju Ben Gaige Jingji Guanli De Jiben Yuanze [Basic Principles of Economic Management as Set Forth in the Current Reform], Xinhua Publishing House, 1987 edition.

5. CPSU Central Committee, "Basic Principles of Economic Management as Set Forth in the Current Reform."

6. In Western joint-stock companies, ownership and management are usually separated, but this separation is different from that sought in socialist restructuring, presupposing the existence of clearly defined equity owners. Thus we see that separation of the two authorities can be effected on the basis of either clear or unclear equity relationships.

7. Broadly speaking, readjusting the structure of the system of ownership and separating ownership and management may be said to constitute reform of the ownership system. In a strict sense, however, only reforms that fundamentally transform enterprise equity relations may be so classified. This article adheres to the latter definition.

8. In Western joint-stock companies, although ownership and management authority are separated and managers bear no liability for assets, the separation is limited. Boards of directors, which represent owners (and are generally comprised of the largest stockholders), not only are empowered to appoint or dismiss executive officers but also wield the supreme authority to decide company strategy. Thus, in these firms, not only is equity clearly delineated but owners' asset liability serves as a strict restraint on company behavior.

## AGRICULTURE

### Suggestions To Improve Grain Subsidies Outlined 40060122b Beijing JINGJI CANKAO in Chinese 26 Oct 88 p 4

[Article by Li Ya 2621 7161 of the Inner Mongolian Finance Department: "A Discussion of Ways To Improve Grain Price Subsidies"]

[Text] The state has long subsidized grain procurement and sales prices. For a certain period, this policy played a positive role in stabilizing market prices and in promoting development of the national economy. However, because of the tremendous changes that have recently occurred in the production, circulation, and consumption of grain and in other areas, this policy is no longer suited to China's current economic development, and the resulting problems urgently require study and resolution.

#### I. Shortcomings in Current Grain Price Subsidy Policy

1. The policy increases the state's financial burden and is a drag on national economic development.

Between 1979 and 1985, expenditure on grain price subsidies rose 170 percent, whereas state revenues increased by only 72.2 percent. The great disparity between these two rates has made subsidization of grain prices one of the major causes of the state's budgetary deficit.

2. *Under the policy, grain prices have diverged from the true value of grain, thus making price mixes irrational.*

3. *The policy undermines the effort to give grain enterprises incentive to strengthen management.*

Under the policy, the state undertakes to make up all losses incurred by grain enterprises, so that it does not matter whether the firms operate well or not and so that policy-induced losses mask operational ones, encouraging enterprises to eat out of the state's big subsidy pot. This undermines our effort to strengthen cost control and weakens budgetary restraint on enterprises.

4. *The policy has created a variety of prices for similar quality grain; permitted many enterprises to substitute negotiated prices for parity prices or supraquota prices for negotiated prices and to use other ruses to extract subsidies from the state; and thus led to a serious drain on state finances.*

## II. Suggestions on How To Improve Policy on Grain Price Subsidies

Grain is an important commodity that affects the national economy and the people's livelihood. Thus we should adopt an aggressive, yet prudent, step-by-step approach and gradually reorder grain procurement and marketing prices. My tentative ideas on how we should proceed are as follows.

A. *We should rectify grain ration standards for urban residents, stop up leakage of grain supply, and stanch the drain of state finances.*

China's current standards for urban resident grain rations were set during the 1950s and have not changed very much in 30-some years. But tremendous changes have occurred in people's diets since the 3d plenum of the 11th CPC Central Committee. Consumption of meat, eggs, poultry, dairy products, and other animal foods has increased markedly, direct consumption of grain has declined, and consumers' stocks of grain have rapidly increased. In Inner Mongolia, for example, consumers' grain stocks, which stood at 250 million kg in 1985, reached 550 million kg in 1988 (not including ration coupons on hand), more than doubling in a short 2 and one-half years and equaling 44 percent of urban residents' total annual grain consumption. Thus the state might consider reducing grain ration standards by 20 to 30 percent. Thus would not adversely affect consumption but would help reduce the drain of state finances and stop up leakage of grain supply.

B. *Reduce sales of parity-priced grain, increase the amount of grain sold at negotiated prices, and expand the scope of market regulation, so as to reduce subsidies.*

1. We must abolish the practices of supplying industry and specific sectors with parity-priced grain. The policy of guaranteeing industry parity-priced grain was adopted

during the period in which the state collected all revenues and made all disbursements for state enterprises. Now, however, enterprises have become independent commodity producers and traders, and their finances have increased rapidly. Thus we must replace the practice of supplying parity-priced grain to industry and specific sectors with negotiated- and market-price sales. This would eliminate the special advantages some enterprises have gained by obtaining grain-price subsidies and would enable firms using grain to compete equally under fair prices.

2. We must decontrol the price of grain sold to agricultural households. The state has decontrolled most vegetable, pork, beef, and mutton prices and ordered that these produce be priced and regulated by the marketplace. Thus there is no advantage or need to supply vegetable growers or animal raisers with parity-priced grain rations. This grain should be sold instead at negotiated prices, so as to reduce the state's financial burden.

3. We must eliminate subsidization of grain used in the effort to restructure rural production.

### C. *Vigorously expand grain output and supply.*

The basic way to resolve the grain problem is to vigorously expand grain output. At present, the primary problem impeding the effort to increase grain supply is that the prices set for contract grain procurement reflect neither changes in production costs nor in market supply and demand, which problem dampens peasant enthusiasm for planting grain. Thus we might consider providing certain amounts of extra-price subsidies for contract grain procurement, so as to rationalize the relative returns obtained from production of grain and of cash crops and to give peasants incentive for growing grain.

These subsidies can be funded in two ways. First, the savings obtained through elimination of subsidies for grain used in specific sectors, in industry and in agriculture may be turned over to the localities for use in developing grain production. Second, the savings obtained from decontrol of the prices of agricultural means of production supplied to peasants as a reward for contract-quota fulfillment, that is, from the change from parity to negotiated prices for these goods, may be turned over to grain departments, which should use these funds to give peasants extra-price subsidies for contract-quota grain procurement. Meanwhile, we must also increase investment in agriculture, enhance agriculture's self-regenerative capacity, and strengthen reserve forces for agricultural development, so as to promote expansion of China's grain output.

**More Equitable Pricing Seen as Means To Stimulate Grain Output**  
40060141 Hong Kong LIAOWANG [OUTLOOK]  
WEEKLY OVERSEAS EDITION in Chinese  
No 47, 21 Nov 88 pp 10-11

[Article by 'Special Correspondent' on Interview With State Council Rural Development Study Center Assistant Research Fellow Gao Xiaomeng—"Institution of 'Two Track System' in Procurement and Sale of Grain for Exchange at Equal Value"]

[Text] Estimates call for a smaller grain output in China during 1988. This marks the fourth straight year of no advance in China's grain production.

Why is China's grain output at a standstill? According to the experts, the crucial reason is too low a contract procurement price for grain. "Cheap grain has hurt the peasants," and peasant enthusiasm for growing grain has consequently declined. This is closely related to the prevailing grain procurement and marketing system. How can this problem be solved? A few days ago, the correspondent interviewed State Council Rural Development Study Center Assistant Research Fellow, Gao Xiaomeng [7559 1420 5536], and the prescription that this grain expert gave was follows: Set up a "two track system" in the procurement and sale of grain for exchange at equal value.

**Troubles After Joy**

"The people regard food as heaven" runs a common saying. Following the founding of New China, grain was put in a very important position, with implementation of the policy of "taking grain as the key link." But the egalitarian people's commune system seriously restrained peasant enthusiasm for production, with the result that the grain problem remained unsolved for several decades. Following full promotion of rural reform centering around a contract responsibility system linked to output, peasant enthusiasm became high because they could realize greater returns from more growing of grain. In 1982 the country began to institute a more thoroughgoing fixed quantity centralized procurement system. A 50 billion jin requisition procurement quota for grain, guaranteed to remain unchanged for three years was announced, the peasants being able to dispose of all grain remaining after fulfillment of quota in any way they saw fit. Should they sell it to the state, all of it would be purchased at an excess procurement price. At that time, both the market price and the excess procurement price were sufficiently attractive, so peasant enthusiasm for growing grain was extremely high. Within three years, grain output increased by 82 billion jin, and in some places peasants experienced "difficulty in selling grain."

Nevertheless, the bumper grain harvest of 1984 foreshadowed a crisis in the next step. In this year, the market price of grain fell by more than 10 percent from

1983, and rapid expansion of livestock raising, sideline occupations, and the fishing industry, as well as secondary and tertiary industries meant a drop in relative returns from the growing of grain. Furthermore, thanks to other factors related to policy and natural disasters, a great decline in output occurred in 1985.

It was also in 1985 that, in order to nudge rural villages on to the track of a commodity economy as quickly as possible, the state abandoned the unified grain procurement policy that it had pursued for several decades, changing to a system whereby the government and peasants signed contracts of their own free will for the procurement of grain. This marked a major reform in the Chinese grain procurement and marketing system. By the end of 1988, however, as a result of the decline in grain output and the rise in the market price of grain, the gap widened anew between the contract price that the state paid the peasants and the market price, and the state was unable to increase the contract price. Thus, price conditions enabling state implementation of commodity exchange with the peasants in the procurement of grain vanished further.

However, grain is not an ordinary commodity. A stable supply of grain is an important condition for socioeconomic stability. Since there is little elasticity in grain consumption, fairly small fluctuations in supply can cause fairly large fluctuations in price, so the need for stability in the supply of grain is far higher than for other commodities. It was against this background that in 1985 the state proposed a plan for "gradual reduction in the amount of contract fixed procurement, and an expansion of market negotiated prices" in the implementation of a "two track" reform policy that was figuratively termed "stabilize one thing and enliven another."

**Need for Perfection of the Existing "Two Track System"**

The existing grain procurement and marketing system is just a preliminary form of the "two track system" the essence of which is "low price centralized procurement" and "market exchange." Since the fixed procurement price for grain is markedly lower than the market price, a series of conflicts and problems have arisen.

First of all, peasants are unwilling to accept and unwilling to fulfill fixed procurement quotas; attainment of fixed procurement quotas is very difficult. It not only makes rural grassroots level cadres devote too much of their energies to grain procurement, but it also artificially creates tension between cadres and the masses, which directly impairs the conduct of all rural economic work.

Second, in order to decrease procurement difficulties, the state has instituted a policy that "links" the sale of the agricultural means of production at parity prices to the fixed procurement of grain. This means that in



exchange for a certain amount of grain from the peasants, the state will supply some means of production at the parity price. Such a method of supplying the agricultural means of production not only hurts a rational allocation of resources, but also causes the peasants to become dissatisfied because it cannot be put into practice entirely. Take chemical fertilizer, for example. Places having a high grain commodity rate are frequently not places having the highest chemical fertilizer utilization rate, while in some intermediate and low producing areas where the grain commodity rate is not high, the chemical fertilizer utilization rate is higher. Investment of an excessive amount of chemical fertilizer in the former kind of area will doubtlessly lower overall grain output.

Third, since restrictions have been largely removed on the prices of other agricultural products, a price differential remaining for only a small number of products such as grain, the result is an inequitable situation in which those who grow grain have to pay a "grain commodity tax." Objectively speaking, this policy, in itself, plays a role in attacking grain production.

Fourth, a point that should be stressed even more is that even though such a "two track system" plays a certain short-term role in the regulation of grain output, since the price is overly low, it is bound to hurt the long-term development of grain production. Unless the existing grain procurement and marketing system is changed, it will be difficult to guarantee sustained and consistent development of grain production.

At the same time, the amount of fixed marketed grain is tremendous, but the fixed market price has remained virtually unchanged since the 1960's, making it markedly lower than the price of other commodities and in comparison with income levels. This has occasioned a series of unpleasant consequences as follows:

First is a serious waste of grain. The overly low price inevitable leads to excess demand. Since there is very little elasticity in grain consumption, this excess demand is not manifested primarily in excess consumption, but rather in serious grain waste. In cities, the waste of grain is extremely common everywhere from restaurants to schools, to official agencies, to enterprises, and on to peoples' homes.

Second is a decline in the effectiveness of grain subsidies. As a result of the overly low centralized sale price of grain (more than half as low as the market price, and lower than the procurement price), the grain ration for city residents is markedly higher. Urban residents trade large numbers of extra grain coupons with the peasants for eggs and other agricultural sideline products. The peasants then use them to buy grain at grain shops. This artificially expands the amount of grain that the state sells at parity price and the pattern of state-supported grain subsidies.

Third, distribution is inequitable. Urban residents' income today is much higher than during the period immediately following liberation, and the swift increase in income during recent years has been accompanied by an extremely great rise in the standard of living. Under these circumstances, continuing to make the much poorer peasants shoulder the duty of providing large amounts of low priced grain to city residents is, in itself, an extremely great social injustice.

### Xinxiang and Yulin Experiment

In order to find a feasible procurement and marketing system, an experiment in reform of the grain procurement and marketing system was conducted in Xinxiang City in Henan Province, and in Yulin in Guangxi Province, which are among the nation's 14 pilot project areas designated for reform.

The experiment in Xinxiang City stressed the linkage between prices and taxes, specifically a substantial pulling together of contract procurement prices and forecast market prices once fixed procurement quotas were fulfilled. This meant raising contract fixed procurement prices as was done in 1988, for example, when the procurement price of wheat was increased 5.30 yuan per dan. At the same time, however, both agricultural taxes and prices of the means of production used in agriculture were increased. The two offset each other, and the peasants benefited a little more than in the past. This method is the embodiment of acting in accordance with the laws of value while simultaneously stabilizing grain prices through government fixed procurement quotas.

The experiment at Yulin emphasized the linkage between procurement and marketing. Procurement prices paid peasants were raised, paddy being purchased at 28 yuan per dan, more than 2 yuan more than before the experiment. The price of husked rice supplied as a ration to residents was increased from 13.90 yuan to 40.00 yuan per dan (which was equivalent to a sale price of 28 yuan per dan of paddy), and a subsidy was provided consumers. The procurement price and the sale price were basically in balance and near the market price.

The reforms in these two experimental areas are now being echoed in numerous places. Guangdong, Fujian, and Shanxi provinces are also continuing to push various kinds of grain procurement and marketing system reform plans.

### Implementation of an "Exchange of Equal Value Two Track System"

More than two years of practice attest to the urgent need for reform of the grain procurement and marketing "two track system," which is strongly tinged with a centralized procurement and marketing coloration, and the need to change both the constant sacrifices that the peasants have to make, and the subsidies that urban residents

have long enjoyed. A new grain procurement and marketing system has to be fashioned so that the peasants will feel sustained enthusiasm for grain production.

Exchange of equal value should be instituted in grain procurement, the state and the peasants jointly shouldering risks. "Exchange of equal value" means a government increase in contract fixed procurement prices so that they are generally the same as market prices. At the same time, the character and the method of implementation of contract fixed procurement quotas should be retained without change. The new procurement system will build a new relationship between the state and the peasants. This will show up, first of all, in exchange of equal value. Not only will there be exchange of equal value with regard to grain procurement, but exchange of equal value will also be implemented at the same time with regard to the means of agricultural production. Thus, the peasants will be able to plan production on the basis of true product prices and input product prices. This should improve the allocation of resources, thereby helping promote grain production and overall development of agriculture, as well as greatly decrease unhealthy tendencies in the circulation of the means of agricultural production. Second will be a joint sharing of risks. Once exchange of equal value has been instituted, a new relationship can be established whereby the state and the peasants jointly share risks in the procurement and sale of some grains and edible oils as a result of grain fixed procurement. Since the state fixed procurement grain price will be generally the same as the average market price over a period of time, in years when the market price of grain is low, the state will sustain a temporary loss. In years when market grain prices are high, the peasants will suffer losses. However, over a period of time, neither the state nor the peasants will suffer losses, and both parties will jointly share market risks. This holds extremely important significance for the fostering of long-term development of grain production.

Increase in agricultural taxes to provide a source of funds. A source of funds for use in raising grain procurement prices bears on the issue of balance in the distribution of national income. People frequently wish that the state would provide money to raise procurement prices to the level of market prices, but the state's financial condition makes the realization of this wish impossible. Another way to get funds is to rely on the issuance of currency, but this is likewise undesirable under the current circumstances of fairly serious inflation. One method that might be considered is to get the funds needed for an increase in procurement prices by increasing agricultural taxes, thereby gaining both a more equitable distribution of tax burdens, and instituting exchange of equal value in the procurement of grain for a fundamental reversal at the policy level of losses from grain growing.

Building a new system of marketing in which producers, consumers, and the state share costs equitably. For reform of the marketing system, monetary subsidization

of residents should be dispensed with simultaneous with an increase in the sale price of grain. This would mean that consumers would have to make choices about what they consume when confronted with real prices, but without hurting their standard of living too much. Subsidies should be limited to residents' grain rations alone, and should be firmly held down for other things not needed for existence. Under the prevailing centralized marketing system, price rises are borne by the state and the peasantry, while urban residents are shielded from rises in the price of agricultural products. The consequences of so doing have inevitably been low grain procurement prices for many years and a lack of peasant enthusiasm for production. The reform method is to allow consumers to bear part of the load and gradually to rely mainly on them to carry the burden of price rises, and gradually to change the subsidies to all urban consumers into subsidies only to those having low incomes. This is not only a main ingredient in agricultural product price reform, but is also a strategic measure for insuring long-term development of the national economy.

**Railway Department Transports More Grain**  
*OW0212023888 Beijing XINHUA Domestic Service*  
*in Chinese 1540 GMT 30 Nov 88*

[Local Broadcast News Service; by reporter Yang Like]

[Text] Beijing, 30 Nov (XINHUA)—In compliance with the instruction of the State Council, the Railway Department, coordinating with other related departments, is jointly taking measures to do a good job in transporting grain. In November, the railway system transported an average of 2,255 railcars of grain daily, which was 175 more railcars of grain carried per day in October.

A responsible person of the Ministry of Railways told this reporter that upon receipt of the instruction of the State Council on stressing the transportation of grain, the Ministry of Railways ordered railway bureaus to place top priority on transporting grain in the current transportation work and clear the way for trains carrying grain along all railroutes.

**Ministry Notes Protective Benefits of Plastic Film for Variety of Crops**  
*OW2311025688 Beijing XINHUA in English*  
*0918 GMT 21 Nov 88*

[Text] Beijing, November 21 (XINHUA)—The use of sheets of plastic film to protect young plants from cold and frost and prolong the growth of crops has brought great economic benefits to China, according to the country's Ministry of Agriculture. At least 3.5 billion yuan has been earned by the country from its use since the new technique was imported from Japan in 1978, ministry sources said.

"The technique was employed on 2.5 million hectares of fields in China this year," an official of the ministry said, "the figure was equal to the amount used by 11 countries, including Japan, the United States, and France.

"To date," he went on, the technique has been popularized in nearly all the provinces, autonomous regions, and municipalities of our country."

Plastic film, used abroad only for growing vegetables and melons at present, has been adapted to growing more than 10 crops such as maize, cotton, and peanuts in China.

The plastic film used to cover plants helps crops ripen from 5 to 20 days ahead of time and raises output by 30 percent, according to Chinese agricultural experts.

Farmers in a mountainous region of Sichuan Province used plastic film on 60,000 hectares of fields last year. Each of them produced 4,980 kilograms of maize, an increase of 2,370 kilograms over fields not using the technique.

The use of plastic film in China, which has aroused great interest abroad, has become one of 10 advanced techniques that the United States now wants to learn from China, the official added.

### **Chemical Fertilizer Development Strategy Discussed**

40060148 Beijing JINGJI CANKAO in Chinese  
24 Nov 88 p 4

[Article by Fei Qiang 6316 1730: "China's Chemical Fertilizer Prospects and Actions To Be Taken by the Year 2000—Interview With Feng Bohua, "Head of the Research Group on 'A Chemical Fertilizer Development Strategy up to the Year 2000'"]

[Text] During the Mid-Autumn Festival, the correspondent visited Comrade Feng Bohua [7458 0130 5478], vice minister of the former Ministry of Chemical Industries and present head of the special research group on chemical fertilizer of the Chinese International Engineering Consulting Company, in Nanjing. Feng excitedly told the correspondent that, not long ago, the State Planning Commission commissioned the Chinese International Engineering Consulting Company to organize 66 Chinese professors and experts to make a comprehensive demonstrative study of strategic goals for chemical fertilizer development in China by the end of the present century, and problems in chemical fertilizer production, circulation, and use, as well as actions to be taken to solve them. The consulting company was to provide a special report titled "Study on a Chemical Fertilizer Development Strategy Up to the Year 2000."

*Strategic goal for chemical fertilizer development by the year 2000: an output of 26.5 million tons per year (pure nutrient content, and the same applies hereinafter), the ratio of nitrogen, phosphate, and potash being 1:0.4:0.032.*

**Correspondent:** Some people say that the shortage of chemical fertilizer is a "problem that will last for centuries." What are your views?

**Feng:** On the basis of the amount of chemical fertilizer needed by agricultural units, taken together with the present status of the country's resources and construction conditions, our special research group believes that setting the strategic goal for China's development of chemical fertilizer production by the year 2000 at an output of 26.5 million tons per year, and a nitrogen, phosphate, and potash ratio of 1:0.4:0.032 is well founded. This is to say that by the end of the present century, China's gross output of chemical fertilizer will be 55.6 percent greater than in 1987, including a very great increase in the percentage of phosphate and potash fertilizers. Once this goal is realized, and with the additional importation of some chemical fertilizer resources and commodity fertilizer that the country lacks, the country will be able to apply 31.8 million tons of fertilizer a year in a 1:0.4:0.25 ratio for nitrogen, phosphate, and potash. This will substantially meet chemical fertilizer needs called for by agricultural units for the production of 300 kilograms of grain per capita.

**Correspondent:** May I ask, what is the key to realizing the above goal?

**Feng:** The key lies in increased production of phosphate fertilizer. The country already has a certain foundation for the production of nitrogenous fertilizer; moreover, there are numerous plants; raw materials may be obtained easily; and local enthusiasm for production is high, making it possible to exceed increased nitrogenous fertilizer production goals, or to complete them ahead of schedule. However, increased production of phosphate fertilizer is hampered by a shortage of phosphate rock, sulfur, and transportation, and the industrial base for the production of phosphate fertilizer is also fairly weak. In 1987, the country's output of phosphate fertilizer amounted to only 19.97 percent of gross output of chemical fertilizer, a figure much much lower than the world average of 25.54 percent. Statistics show that attainment of goals for increasing chemical fertilizer output by the end of the present century will require a phosphate fertilizer output that is 1.2 times higher than the 1987 output, and a 20-fold increase in potash fertilizer output. Active exploitation of phosphate rock, sulfur, and potassium chloride resources will have to begin right now, and arrangements will have to be made at the same time to solve attendant transportation problems.

We will also have to devote serious attention to improving chemical fertilizer quality. The goal for improving chemical fertilizer quality is that by the end of the century highly concentrated simple substance fertilizer

(such as urea or ammonium nitrate) in nitrogenous fertilizer is to be more than 50 percent, while the percentage of ammonium hydrogen carbonate is to decrease from 56 percent to approximately 40 percent, and its properties are to be improved. The percentage of highly concentrated phosphate fertilizer in phosphate fertilizer is to be increased from 20 percent to between 50 and 90 percent, while the percentage of calcium and calcium magnesium phosphate fertilizer is to be reduced from 98 percent to between 50 and 40 percent, and fourth grade products are positively to be eliminated. Compound phosphate fertilizer is to increase from the present 1 percent to 30 percent of the total amount of chemical fertilizer. In addition, trace element fertilizers containing boron, zinc, manganese, molybdenum, iron, and copper, as well as humate fertilizers are to be developed.

**Correspondent:** As I understand it, simultaneous with vigorous efforts to increase the output of chemical fertilizer, actions will be taken to improve fertilizer effectiveness, and the scientific use of fertilizer.

**Feng:** Correct! Statistics from the units concerned show that too much nitrogenous fertilizer is applied to one-fourth of the sown area nationwide. As a result of inequitable distribution and slapdash use, the chemical fertilizer utilization rate for the country as a whole is only 30 percent. At the present level, promotion of the scientific application of fertilizer could increase the chemical fertilizer utilization rate by 10 percent, which is equal to a 2 million ton annual increase in the output of chemical fertilizer, and would result in a 9 billion yuan saving in construction funds. At the same time, it would reduce the approximately 5 billion yuan in economic losses resulting from improper fertilizer application.

In promoting scientific fertilizer application, I believe two things must be given serious attention as follows: First, the national units concerned should draw up scientific fertilizer application formulations, and chemical fertilizer distribution zones so that chemical fertilizer having the proper percentage of nitrogen, phosphate, and potash is supplied on the basis of soil conditions and the nature of the crops being grown in various areas, thereby enabling optimum returns in increased yields. Second is the need for more study and promotion of scientific fertilizer application, and the gradual shaping within counties of a scientific fertilizer application system that relies on fertilizer formulations provided by agricultural science units, products provided by chemical fertilizer businesses, and supply and marketing cooperative flow channels. When planning the construction of large and medium size chemical fertilizer plants, both the state and all jurisdictions should make arrangements for the basic kinds of fertilizer required for secondary processing of chemical fertilizer in accordance with formulations. By the end of the century, China's chemical fertilizer utilization rate should increase from the present 30 percent to 40 percent.

*Development of the chemical fertilizer industry should be founded on technical progress, all parties pooling funds to "get off the ground."*

**Correspondent:** What measures will have to be adopted and taken for attainment of strategic goals for the development of chemical fertilizer by the end of the present century?

**Feng:** There is a substantial gap between the level of technology in China's chemical fertilizer industry and the advanced level existing in foreign countries. At the present time, except for the 17 imported large complete chemical fertilizer plant, which are at the international level of the early 1970's, the remaining more than 1,800 medium and small enterprises have a 1960's level of technology. China's nitrogenous fertilizer enterprises' annual consumption of energy is greater than that of advanced plants abroad by the equivalent of between approximately 5 and 6 million tons of standard coal. For this reason, China's development of chemical fertilizer must be founded on technical progress.

The manufacture in China of large chemical fertilizer equipment is another aspect of this issue. During the Fifth 5-Year Plan, we want to build several large experimental plants of Chinese manufacture employing advanced technology for the use of coal (or petroleum and asphalt), and natural gas as raw materials to produce nitrogenous fertilizer, as well as two Chinese-made experimental plants making highly concentrated compound fertilizer containing phosphate. By the end of the century, between 80 and 90 percent of all large chemical fertilizer plants should be of Chinese manufacture. The level of manufacture of whole plants should be oriented toward the international market, the international level of the late 1980's being attained by the end of the century.

Advanced prospecting techniques must be actively used in searching for sources of phosphate, sulfur, and potash, and techniques must be perfected for the extraction of phosphate, sulfur, and potash from rock to increase the yield and lower costs. Foreign resources must also be used for potash fertilizer.

**Correspondent:** Is needed investment sufficient to meet strategic goals in the development of chemical fertilizer? How can the problem be solved?

**Feng:** We have calculated that realization of this goal will require approximately 1.97 times the cumulative investment in chemical fertilizer from 1953 through 1986. This figure does not take into account changes in foreign exchange rates and rises in prices. Therefore, ability to raise the funds is the key to realization of this strategic goal.

Various methods for "getting off the ground" may be employed to raise this sum of money. Money may be obtained from the following five sources:



1. Between approximately 15 and 18 billion yuan may be obtained from chemical fertilizer technical transformation loans, and from money put up by enterprises themselves.

2. Approximately 7 to 9 billion yuan may be obtained from lateral contacts and from the raising of funds in fertilizing using areas (through the issuance of shares or debentures against which fertilizer would be distributed).

3. A national budget investment of so many hundreds of million yuan.

4. Withholding of 6 billion yuan from taxes collected in takeovers of cultivated land.

5. Use of hundreds of millions of dollars of foreign funds.

In these ways, more than 56 billion yuan renminbi can be amassed, about 20 percent of it foreign money, and 42 percent of it put up by localities and enterprises themselves.

Estimates call for several hundred million yuan of this investment to be used in the building of large and intermediate size projects, a percentage of total state capital construction for the same period that is far lower than the levels of the Fourth and Fifth 5-Year Plan periods. The state has always regarded agriculture as the foundation of the national economy, so such a low level of investment for something of importance to agriculture should be bearable. In addition, the state should give preference and support through reduction or exemption from land takeover taxes and construction taxes, or providing energy transportation funds and loans.

*The only avenue open to chemical fertilizer enterprises is the commercialization of chemical fertilizer production to enable a majority of chemical fertilizer enterprises to take the road of self-transformation, and self-realization in a benign cycle.*

**Correspondent:** What can be done today to change the longstanding passive situation whereby the chemical fertilizer industry has relied on state "blood transfusions?"

**Feng:** First of all, chemical fertilizer production has to be commercialized as quickly as possible. Chemical fertilizer prices in China have long been adversely affected by undue emphasis on support for agriculture, which has resulted in an unfair situation. A large percentage of large and medium size chemical fertilizer plants practice centralized procurement and centralized marketing, prescribed prices being low. When prices of energy and of raw and processed materials are steadily rising, despite steady decline in consumption of materials used in production, enterprises' output value profit rates are still in decline everywhere. From 1981 through 1984, the internal rate of return on investment throughout the

chemical fertilizer industry was 6 percent, but in 1985, it was only 2 percent. Total profits from all the country's phosphate fertilizer plants and phosphate mines are no more than 23 million yuan per year. Large and medium size chemical fertilizer enterprises show a general lack of vitality, and most enterprises have no choice but to rely on the state for "blood transfusions" to make up for shortfalls, for replacing equipment, for technical transformation, and for expansion.

I consider chemical fertilizer to be a commodity too. Henceforth, the production and marketing of chemical fertilizer must be in accordance with the laws of value to enable chemical fertilizer enterprises, as commodity producers, to realize a fair return. Enterprises ability to transform themselves and to develop themselves should be gradually increased, so that they will ultimately be able to move in a benign cycle.

**Correspondent:** What should be done about readjusting chemical fertilizer prices?

**Feng:** A policy of safeguarding both ends while squeezing the middle should be adopted in the readjustment of chemical fertilizer prices. That is to say that restraints should be removed on the ex-factory price of chemical fertilizer, circulation costs should be strictly controlled, and retail prices should be readjusted. Before all restraints are removed on prices, the following method should be used during transition:

Price units should set ex-factory prices of commodity fertilizer for different types of fertilizer in different areas on the basis of factory costs (average cost norm plus pro-rated costs of raw and processed materials, energy, and wages, and a 6.65 percent overall depreciation rate), plus the product tax (at a 5 percent tax rate), plus the output value profit rate (figured at 15 percent). This would enable a 10 to 12 percent financial internal rate of return for enterprises producing nitrogenous fertilizer, and a 12 to 14 percent internal rate of return for phosphate fertilizer enterprises and phosphate rock quarries. The ex-factory price of chemical fertilizer should now be based on raw materials and energy supply prices, "low price in meaning low price out, and high price in meaning high price out." When parity price raw materials cannot be obtained to produce chemical fertilizer that is to be uniformly allocated by the state (at parity price), necessitating the procurement at negotiated prices of raw and processed materials, it is suggested that the state, as well as provinces, municipalities, and autonomous regions solve the problem by a return to differential prices.

**Correspondent:** Will the peasants be able to stand a readjustment of chemical fertilizer prices and the commercialization of chemical fertilizer production?

**Feng:** This is an extraordinarily important prerequisite. We have made a comprehensive scientific study and verification of this matter. The principle to be followed

in readjusting the retail price of chemical fertilizer is "to enable fertilizer plants to survive and develop, and to enable the peasants to increase yields and increase earnings." When comparative prices of grain and fertilizer and the proportion of investment in agricultural production are fair, and when scientific application of agriculture is encouraged, maximum price limits for chemical fertilizer may be set in terms of the ability of agriculture to pay, prices may be set area by area, premium prices may be paid for premium quality, and seasonal price differentials may be paid. The mathematical formula to be used is as follows:

Commodity fertilizer maximum retail price = (average overall grain price x benefits value from increased grain yields x coefficient of proportion of investment in agricultural production) x chemical fertilizer pure nutrient concentration x fertilizer benefit adjustment coefficient.

Yet another crucial point in the readjustment of chemical fertilizer prices is reducing the circulation costs of intermediary links in the marketing chain, controlling circulation costs of highly concentrated chemical fertilizer at 18 percent of the retail price, and of low concentration chemical fertilizer at 12 percent while insuring a reasonable profit for business.

By readjusting the price of chemical fertilizer, and strictly controlling the chemical fertilizer market in accordance with this plan, as well as promoting scientific fertilizer application and techniques for conserving the use of fertilizer, peasant actual expenditures on chemical fertilizer will not only not increase, but may possibly decrease.

#### **Rice With Naturally Second-Cropping Characteristic Introduced**

OW2511085088 Beijing XINHUA in English  
0918 GMT 24 Nov 88

[Text] Beijing, November 24 (XINHUA)—China is introducing nationwide the naturally growing second cropping rice in a bid to obtain more grain to feed this country with the world's largest population, an official from the Ministry of Agriculture said here today.

Known as "ratooning rice" academically, the second cropping grows on the rice stalks after the first cropping is harvested. More than 410,000 hectares of such rice are now growing well in Sichuan, Hubei, Jiangsu, and seven other provinces, with an estimated total output of 500,000 tons, the official said.

This kind of rice is intended to make best use of the sunlight, temperature, and the fertilizer left over after the first cropping. "It takes only 60 days to get ripe," the official explained.

An agronomist from the ministry said the second cropping rice can be introduced in two million hectares and the actual growing area is expected to reach 660,000 hectares in two years.

#### **Country Exceeds Annual Salt Production Quota**

OW0412053788 Beijing XINHUA in English  
1431 GMT 30 Nov 88

[Text] Beijing, November 30 (XINHUA)—China had produced 19.6 million tons of salt by the end of November, 15 percent more than the whole year's salt production quota, according to an official from the Ministry of Light Industry.

The official said that the salt output is expected to reach 2.5 million tons by the end of this year, much more than the country's actual market demand.

Panic buying of salt a few months ago upset the balance between supply and demand, one official said, and that was one of the main reasons that led to a shortage of salt on the market.

#### **Successes of 'Shelterbelt' Project Reported**

OW2511074288 Beijing XINHUA in English  
1306 GMT 24 Nov 88

[Text] Beijing, November 24 (XINHUA)—The "Three-North Shelterbelt" project has achieved initial results in curbing desertification and checking soil erosion over the past ten years, an official from the Ministry of Forestry said here today.

Statistics released by the Ministry showed that after a decade's effort, about 9.1 million hectares of forests have been planted and the forest vegetation in the "Three-North"—northeast, northwest, and north China, have increased to 28.3-million hectares.

11 million hectares of farmland, which were attacked by soil erosion years ago, have now been protected. The crop output in these areas have been boosted by 10 to 30 percent, the official said. The timber reserves in the "Three North" have also increased 200 million cubic meters, with an annual timber output of 5.6 million cubic meters.

In an effort to improve China's ecological environment, the Chinese Government started to build the "Green Great Wall" in 1978. The shelterbelt, running across northeast, northwest, and north China, with a length of 7,000 kilometers and a width of 400 to 1,700 kilometers, covers 396 counties in 12 provinces, autonomous regions and municipalities. It is the largest ecological construction project in the world, according to the official.

By 1985, the first stage of the project was accomplished grasses and trees planted. [sentence as received] The second ten-year stage, starting in 1986, will focus on afforestation around Beijing, along the Yellow River and the Beijing-Lanzhou railway line, the official added.

**Measures To Increase Agricultural Investment**  
*OW3011054488 Beijing XINHUA in English*  
1511 GMT 28 Nov 88

[Text] Beijing, November 28, (XINHUA)—China is making efforts to achieve a bumper harvest by increasing agricultural investment and production materials, and promoting water conservation work.

According to today's PEOPLE'S DAILY, several provincial governments are taking measures to increase their investment in agriculture.

The government of the Guangxi Zhuang Autonomous Region will add another 10 million yuan in this respect next year on the basis of this year's investment of 10.61 million yuan.

From next year on, the regional government will set up agricultural development funds at all levels and more than 70 percent of the increment of the taxes from rural enterprises and some of the land-use taxes are to be put into agricultural production.

Funds for agricultural technology and research will also be increased. The regional economic commission will allocate 10 million yuan to transform its agriculture-oriented industry.

In this respect the Sichuan Provincial Government has decided to add another 20 million yuan to its total agricultural investment next year, and 60 percent of the taxes from rural enterprises and individual households will be used for the development of agriculture.

China's total grain output has fallen short of expectations for four years in succession, and this has been blamed not only on droughts and pests, but also on a shortage of farm production materials.

Therefore, in Guangxi and Sichuan, priority in foreign currency spending will be put on the import of agricultural production materials and more funds will be appropriated for loans for grain production and the purchase of agricultural and sideline products.

Of its 14 million U.S. dollars of foreign income this year, the Sichuan government will earmark 12 million dollars to import chemical fertilizer, pesticides and other production materials.

Materials for agricultural production will be boosted and preferential policies will be adopted in the fertilizer industry at county level, aiming to meet the demand for raw materials, funds, energy supply and materials for basic construction.

Sichuan Province is planning to use about 100 million cu m of natural gas for fertilizer production.

Guangxi expects that its chemical fertilizer output will increase by five percent next year to reach 3.69 million tons in 1992 from 2.74 million tons this year.

At the same time, a new drive for water conservation and farmland development is under way all over the country.

By the end of October Shanxi Province had mobilized about 2.38 million people for this work and completed about 7,730 projects.

Guangxi has earmarked 17 million yuan for farmland development and water conservation, and local governments have collected 40 million yuan for these sectors.

According to the plans, about 77,000 more hectares of farmland will be covered by its irrigation networks next year.

**Winter Irrigation Construction Drive in Full Swing**

*OW2911140688 Beijing Domestic Service*  
in Mandarin 1030 GMT 23 Nov 88

[Text] A winter drive to repair and build irrigation facilities is being carried out across the country, and it is already in full swing in some localities. The irrigated area increased by 880,000 mu in October alone.

After thoroughly examining damage done by drought and flood this year, local governments at different levels have strengthened the leadership over the water conservancy works. Shanxi, Jiangsu, Hunan, and other provinces, as well as many prefectures, cities, and counties across the country, have regarded the construction of irrigation facilities as the central task and carried it out through implementing the responsibility system at different levels, dividing up the work and assigning a part to each individual or group, popularizing the experience of pilot projects, and linking the work with the targeted goal of local governments during the tenure.

Efforts to explore financial resources and increase the input on water conservancy works have ensured a good beginning of the winter drive on farmland capital construction. On the basis of 60 million yuan increase last year, Henan Province has increased the investment by 40 million yuan this year. In Hunan's Loudi, regulations for using the irrigation funds have been enforced. In view of the serious damage done to water conservancy facilities and farmland by torrential rain and flood this year, the majority of provinces, autonomous regions,

and municipalities have focused their attention on repairing irrigation projects and farmland. Jilin, Hebei, Gansu, and Guizhou have worked out plans for precautionary measures to be taken this winter and next spring to counter problems that may occur in next year's agricultural production. In some provinces and autonomous regions, however, fewer projects have been completed and fewer labor forces mobilized than last winter, and the drive has proceeded unevenly. This has been caused primarily by the absence of planning and funds for repairing and building irrigation projects and by the shortages of steel products, lumber, cement, and fuel.

**Consumption of Fish Doubles**  
*HK3011085588 Beijing CHINA DAILY*  
*in English 30 Nov 88 p 3*

[By staff reporter Wen Jia]

[Text] Consumption of fish has doubled in China over the past few years.

Each person now eats about 10 kilograms of fish of one kind or another every year, compared with only five kilograms six years ago.

The Ministry of Agriculture says that the total fisheries yield will exceed 10 million tons this year, a record for the past 40 years.

Annual output has increased by an average 1 million tons in recent years, although this year it will be a little more than 500,000 tons.

The quota set in the Seventh 5-Year Plan (1986-90) of nine million tons a year, has been fulfilled three years ahead of time.

Now the aim is to produce 11 million tons of aquatic products annually by 1990.

Growth in demand and favourable policies are the main reasons for the sharp increase in output, according to officials in the aquatic products bureau of the ministry.

Inland freshwater fishing has developed fastest of all. In the first half of this year, more than 80 percent of the country's 250,000-ton increase in fish produce came from inland freshwater sources.

China now has more than 17.3 million hectares of freshwater fisheries. By the end of last year, nearly 3.9 million hectares, or about 70 percent of the area available for fishing, had been exploited.

**Shortage of Funds Hurts Pig Breeders**  
*HK2911040688 Beijing CHINA DAILY in English*  
*29 Nov 88 p 3*

[By staff reporter Ma Zhiping: "Cashless Pig Raisers Enduring Lean Times"]

[Text] China's pig breeders are feeling a money pinch.

Many are being forced to either sell their pigs on credit or not to sell their pigs at all because purchasers and pork processors are so short of funds.

The problem is particularly acute in Sichuan and Hunan provinces, China's largest and second largest pig production bases, and other large centres in Jiangxi, Jiangsu, Anhui, and Zhejiang provinces.

Lin Junkai, an official from the Ministry of Commerce, said purchasing stations and processing factories can't pay the pig breeders because they do not have the necessary funds and loans, Lin said.

Many centres are forced to buy on credit.

In Sichuan Province debt bills worth millions of yuan have been handed out. Four counties in Sichuan's Neijiang City now owe 10 million yuan to pig breeders, said Lin.

More than 20 meat processing factories in Hunan Province have shut or reduced operations since August because of a serious shortage of funds to purchase pigs, according to China Food News.

Rising pork prices and the tightening of bank credit have contributed to the troubles, the paper said.

The Ministry of Commerce official warned that the decline in pig purchases will affect the market management next year.

He also said that individual butchers may take advantage of the shortage and charge pig breeders exorbitant interests, thus damaging farmer initiative even more.

The shortage of funds has also encouraged many factories to juggle their finances in extraordinary ways.

Factories are collecting debts directly rather than having the money go through banks where it might be held to pay off loans.

This may solve the problem of fund shortages, but it has severely disrupted the normal cash flow, Lin said.



### Food Industry Output Value Cited

HK3011112388 Beijing CEI Database in English  
30 Nov 88

[Text] Beijing (CEI)—The output value of China's food industry is expected to hit 125 billion yuan this year, next only to that of the machinery and textile industries, according to statistics provided by the departments concerned.

China's food industry has reported an average annual growth of 10 percent since 1979, the statistics show. The output value of the food industry last year totalled 113.4 billion yuan.

The food industry has also become one of China's major foreign exchange earners through export. The industry earned a total of 4.5 billion U.S. dollars in foreign exchange last year and the figure is expected to increase to five billion U.S. dollars this year.

Varieties of foodstuffs have also expanded in recent year, and China's first international food fair will be held in Beijing next month.

### Environment Damages Agriculture in Southwest

OW0412053388 Beijing XINHUA in English  
1627 GMT 30 Nov 88

[Text] Beijing, November 30 (XINHUA)—The worsening environment in southwest China is damaging agriculture in the region, says a signed article in the Beijing-based SCIENCE NEWS.

Southwest China includes Sichuan, Yunnan, and Guizhou Provinces and the Guangxi Zhuang and Tibet Autonomous Regions.

A large proportion of southwestern China's total area is made up of hill country, which accounts, for example, for 94 percent of Yunnan Province.

The article by Luo Defu, a researcher with the Chengdu Institute of Geography of the Chinese Academy of Sciences, points out that in southwest China the percentage of forest cover is below 338 [as received] percent because of overcutting of trees and forest fires.

For instance, in Guangxi, the forest cover is 22 percent; in Sichuan Province, the level is even lower—just 12.6 percent.

As a result, many rivers and lakes in southwest China have dried up. And soil erosion becomes more and more serious.

Guangxi has a total of 324 major rivers, but now 21 of them have dried up while the annual discharge of the other 148 rivers in a normal year is reduced by one half compared with that in 1950, according to the article.

The area of soil erosion in Sichuan amounts to 247,000 square kilometers, accounting for 43.5 percent of the province's total area of land.

Soil erosion also affects the benefits of many water irrigation works. In Wanxian and Nanchong Counties of Sichuan, storage capacity of reservoirs is reduced by an average of 60 percent.

The article says the worsened environment in the southwest causes frequent natural calamities, especially drought, flood, plant diseases and insect pests.

In 1986, the accumulative area hit by natural calamities in Guangxi was 2.133 million hectares, accounting for 68.5 percent of the autonomous region's total cultivated area.

Plant diseases and insect pests in the southwest are also serious. In the 1960s, only Qinzhou Prefecture in Guangxi suffered from insect pests, but in the 1970s the whole autonomous region was threatened by insect pests. And in 1977 the area in the autonomous region hit by insect pests reached 1.85 million hectares, accounting for 53 percent of the region's total cultivated area.

The plant diseases and insect pests in forests spread even faster. In 1986, a total of 16,000 hectares of trees in Yunnan suffered from diseases or insect pests, causing a loss of more than 100 million yuan.

According to the article, more than two million hectares of farmland in the southwest are still affected by disasters. And the total grain output of each province in the southwest is reduced by 500 to 750 million kilograms a year. Thus fifteen million people in the southwestern Chinese provinces do not have sufficient to eat.

The article suggests to work out effective measures to improve the environment in order to decrease the frequency of natural disasters.

### Report on Anhui Autumn Farming Tasks

OW2311023888 Hefei Anhui Provincial Service  
in Mandarin 1100 GMT 20 Nov 88

[Text] Peasants in this province have basically completed their autumn planting tasks. As of 14 November, peasants in various localities of this province had planted 31,886,000 mu of summer grain, accounting for 96.6 percent of the planned target, according to a statistical report made by a concerned department. They have planted 12,031,000 mu of rapeseed, accounting for 86.3 percent of the planned task.

Since mid-October, rainfall in various localities has been inadequate and temperature has been relatively high. Accordingly, the soil condition is quite unsatisfactory. At present, crops planted this autumn are generally suffering from drought, and the growing condition of seedlings is relatively bad. The rate of emergence of seedlings of

summer grain and rapeseed planted soon after Frost's Descent [18th Chinese solar term] is quite uneven, and seedlings basically have not emerged from grain and rapeseed sown this month. Some two million mu were planted with crops during the frost-free period.

In order to reap a bumper harvest of summer harvest crops next year, various localities must, in light of the serious drought situation, grasp the work of protecting seedlings and crash sowing while fighting against the drought.

**Beijing Farmers Increase Income, Investment**  
*OW2311041288 Beijing XINHUA in English*  
0237 GMT 23 Nov 88

[Text] Beijing, November 23 (XINHUA)—Farmers in Beijing suburbs invested more money on agricultural production this year, Beijing City Statistics Bureau revealed.

The latest random sample survey by the bureau indicated that about 151 yuan have been invested in agriculture for each farmer in Beijing suburbs in the last nine months, a 52.8 percent increase compared with the same period last year.

Survey was conducted in 15 Beijing counties and districts. It showed that farmer spent about 19.49 yuan for every 100 yuan they earned on agricultural production. Their average income was 777.7 yuan in the last nine months, about 27.9 percent more than same period last year.

The figure is also much higher than what the farmers had spent in their daily consumption and their house-building.

The random survey indicated that money local farmers spent on agricultural machinery and transport vehicles had increased by 92 percent over the same period last year and the capital they put into the livestock and poultry was 2.6 times more than the same 1988 period.

**Gansu Grain Storage**  
*40060204b Lanzhou GANSU RIBAO in Chinese*  
30 Nov 88 p 1

[Summary] As of 25 November, Gansu Province had put 538,800,000 kilograms of grain in storage, fulfilling 72.92 percent of the task.

**Guangdong Late-Rice Production Reportedly Drops**  
*HK0312014488 Hong Kong ZHONGGUO TONGXUN SHE in Chinese 1337 GMT 28 Nov 88*

[Report: "Late-Rice Production in Guangdong Province Drops This Year"]

[Text] Hong Kong, 28 Nov (ZHONGGUO TONGXUN SHE)—Guangzhou news: The harvest of the current year's late rice in Guangdong Province has basically

finished. A drop in production is a foregone conclusion. It is estimated that there is a shortfall of 600 million jin compared with the same period last year.

It is learned that the actual transplantation area of late rice seedling this year in Guangdong was 24.42 million mu, a drop of nearly 200,000 mu compared with the same period last year. Because the season came late, and the area of early-ripening crops was large, and the fact that some local areas have been hit relatively severely by typhoon, floods and drought, quite a few counties and cities have suffered a decrease in their late-rice production. The production in cities such as Zhaoqing, Yangjiang and Zhanjiang dropped by over 100 million jin, while cities which have enjoyed production increases are Shaoguan, Huizhou, Dongguan, Heyuan, Shanwei and so on.

**Provincial Government Decides on Chemical Fertilizer Prices**  
*SK2811021888 Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 26 Nov 88*

[Text] The provincial government has decided to sell chemical fertilizers at unified prices next year and maintain the prices at this year's level. This was announced by (?Zhao Yu), deputy secretary-general of the provincial government and spokesman, at today's provincial government press meeting. The unified chemical fertilizer prices to be implemented next year are based on negotiated prices and this year's prices set by the government, and are calculated by combining the prices from various channels, including state unified distribution, provincial unified distribution, local governments' import of chemical fertilizers with foreign funds, enterprises' above-quota sales at their disposal, and low-price chemical fertilizers. The unified prices of all types of chemical fertilizers to be sold next year throughout the province will be: a ton of ammonium nitrate will be sold at 472 yuan; a ton of carbamide at 748 yuan; and a ton of diamine [eran] at 1,122 yuan.

Zhao Yu, deputy secretary-general of the provincial government, said: The provincial government's decision to fix the unified prices of chemical fertilizers is to try to reduce the peasants' burden and promote a stable development in the province's agricultural production. The implementation of such prices, except for diamine, will make the province witness price differentials of more than 3.6 million yuan next year. The provincial government will organize the relevant provincial, prefectural, and county departments to share and solve these price differentials. In addition, the provincial government has also decided to distribute the existing 370,000 tons of chemical fertilizers in the supply and marketing cooperatives to the lower level and to strive to distribute 1 million tons before the Spring Festival so that the amount of chemical fertilizers used next year will be kept at this year's level.

Zhao Yu said: The move of implementing unified prices in chemical fertilizers sales and distributing them ahead of schedule will boost the enthusiasm of peasants throughout the province in grain cultivation and guarantee stable prices at the agricultural capital goods markets. In addition, we should guide peasants to change the funds for livelihood into production funds and prepare for next year's production ahead of schedule. After implementing unified prices in the sales of chemical fertilizers, the province's chemical fertilizers will be distributed in a planned manner and sold at unified prices. The price differentials appeared in linking the purchases of grain by contracts with the supply of low-price chemical fertilizer must be returned to peasants by adopting the method of finding out the price differentials when they purchase grain.

**Heilongjiang Reaps Bumper Tobacco Harvest**  
*SK0812070088 Harbin HEILONGJIANG RIBAO in Chinese 21 Nov 88 p 1*

[Excerpt] This year, despite serious natural calamities, our province reaped a bumper harvest in flue-cured tobacco. The total volume of flue-cured tobacco procured is estimated at 1.85 million dan; income of tobacco peasants is estimated at 240 million yuan, 100 million yuan more than the 1987 figure; and financial revenues from procured tobacco is estimated at 100 million yuan, double the 1987 figure. In addition, the percentage of middle- and high-class tobacco will reach 87 percent. The province will set a record high in output and quality of flue-cured tobacco. [passage omitted]

**Hubei Grain Area**  
*40060204a Beijing NONGMIN RIBAO in Chinese 22 Nov 88 p 1*

[Excerpt] [passage omitted] The area sown to summer grain in Hubei Province was 28 million mu, an increase of more than 1.7 million mu over 1987.

**Hunan Plants Seeds in Hainan, Guangxi**  
*40060204c Changsha HUNAN RIBAO in Chinese 7 Oct 88 p 1*

[Summary] To ensure an adequate supply of hybrid rice seeds in 1989, the Hunan Provincial government has decided to plant 50,000 mu of seeds in Hainan and Guangxi. The Hunan Financial Department has allocated 8 million yuan for this.

**Jiangsu Cotton Procurement**  
*40060142d Nanjing XINHUA RIBAO in Chinese 23 Nov 88 p 1*

[Excerpt] As of 20 November, supply and marketing cooperatives in Jiangsu Province had procured 8,518,000 dan of ginned cotton, a 7 percent increase over the amount procured in 1987. [passage omitted]

**Jiangsu Dairy Cows**  
*40060142e Beijing JINGJI CANKAO in Chinese 15 Dec 88 p 2*

[Summary] At the end of October, Jiangsu Province had 30,000 dairy cows in stock, a decline of 6,000 from the beginning of 1988. The major reason for the decline is a severe shortage of feed and increased feed prices.

**Shandong Becomes Major Salt Supplier**  
*OW3011054788 Beijing XINHUA in English 1554 GMT 28 Nov 88*

[Text] Jinan, November 28 (XINHUA)—Shandong, a coastal province in east China, has become one of the country's largest salt suppliers, according to the provincial salt administration.

From January to mid-November, Shandong supplied 4.1 million tons of edible salt to 20 provinces and municipalities, accounting for 20 percent of the country's total.

The province has sold 14.18 million tons of salt over the past four years, 18 percent of the country's total salt sold.

An official from the administration said Shandong is now developing a salt field with an annual production capacity of 4.1 million tons.

It is also improving transportation facilities for this industry and building or expanding a number of special salt wharves.

**Problems with Commodity Grain Bases Discussed**  
*40060122a Beijing JINGJI CANKAO in Chinese 3 Nov 88 p 4*

[Article by Yang Quansheng 2799 0356 0524: "Problems with the Current Effort To Develop Commodity Grain Bases"; abstracted from NONGJING LILUN YANJIU [THEORETICAL STUDY OF AGRICULTURAL ECONOMICS] No 4, 1988]

[Text] The decision to create commodity grain bases was designed as an important strategy for the stabilization of grain production and for guaranteeing that the needs of the people are met. In 1983, the state decided to create a number of such bases throughout the nation, to grant these bases preferential treatment, and to invest specific amounts of material and funds therein. The strategy has achieved some success, and its prospects look good. Still, we must not overlook the obstacles and potential dangers it confronts.

1. *The problem of the energy needed to expand grain production.* The salient problem here is the electricity needed to fight natural disasters affecting grain production. Commodity grain bases are supposed to provide a stable supply of large amounts of commodity grain. But if we do not accord the bases planned quotas of electric-power supply and instead wait until natural

calamities strike before making emergency reallocations from industry to agriculture, it will be difficult to ensure normal agricultural production operations.

2. *There are serious shortages of agricultural means of production, and price hikes have exceeded those for grain under the "double track system."* The shortage of quality fertilizer (urea and potash) is especially serious, and supply of plastic film and effective, low-toxic pesticides is also tight, and growing tighter. The "double track system" in grain procurement has produced a similar system for the supply of the means of production, and the market prices of these goods have climbed in a straight line. Price departments report that, while grain procurement prices have risen 1.8 percent over the last 2 years, the prices of major means of production have leaped by 2.7 percent, thus leading to a continuous fall in the marginal returns of grain production.

3. *Despite reduction in grain contract procurement quotas, the steady rise in disguised "assigned procurement" has dampened peasant enthusiasm for producing grain.* Over the past several years, the state, in order to give peasants more incentive for producing grain, has employed a "double track system" for contract procurement of grain, so as to give peasants more real reward for such activity. Yet at the same time, the state, in an effort to gain control over greater amounts of grain, has also added a new quota called "negotiated-to-parity," which has grown year after year and under which grain departments purchase grain on behalf of the state at prices appropriately higher than contract-procurement levels. Even though contract quotas have been reduced, peasant sales of grain on open markets at negotiated prices have failed to increase, and recent state policy has by no means benefited peasants, who say that "negotiated-to-parity" amounts to nothing else than disguised "assigned procurement" and that the "double track system" has now become "triple track."

4. The decline in investment to develop commodity grain bases and the rise in the amount of profits that grain traders are required to turn over to the state has dampened the enthusiasm of localities for expanding grain output.

#### **Soybean Cross-Types I. Rules for Change of Chinese Soybean Cross-Types**

40110018 Wuhan ZHONGGUO YOU LIAN [OIL CROPS OF CHINA] in Chinese No 3, 20 Sep 88 p 20

[Article by the Oil Crops Research Institute, Chinese Academy of Agricultural Sciences]

[Text of English Abstract] 206 soybean cultivars developed at various stage in 10 provinces were used for analyzing the formation of their pedigrees. The results showed that pure line breeding method was gradually replaced by hybrid method. Cross types using local cultivars and breeding lines as parents play an important part in breeding. It is worth noticing that varieties

developed from the crosses between breeding lines are increasing rapidly. So breeding lines or varieties with more complex genetic background are used as parents to get the best breeding effects.

#### **Study on Bamboo Smut, Biological Characteristics of Pathogen (Ustilago Shiraiana P. Henn)**

40110020 Nanjing NANJING LINYE DAXUE XUEBAO [JOURNAL OF NANJING FORESTRY UNIVERSITY] in Chinese No 3, 3 Sep 88 p 71

[Article by Zhu Xiqiao 2612 3556 2884 of the Department of Forestry]

[Text of English Abstract] Bamboo smut attacked the spring tip and bamboo shoots of various types of bamboo. Black flowers appeared on the end of the tip. Except for spring tips, secondary tips did not suffer bamboo smut. The pathogen chlamydospore does not have a resting period when they are germinating with relative humidity of 98-100 percent, the most fit temperature was 20-24° C. During germination, a very short germ tube is produced and basidiospore grows as a bud. Chlamydospore lasts one month. Most plants get infected all over, year after year, and bamboo lash of infected plant is connected. Consequently, the probable disease is plant disease of systematic infectivity. Perhaps, the pathogen infection gets through the young shoot of bamboo lash from the earth's surface.

#### **Detection of Antibodies Against Swine Fever Virus (SFV) by Indirect Elisa**

40110017 Tianjin XUMU SHOUYI XUEBAO [ACTA VETERINARIA ET ZOOTECHNICA SINICA] in Chinese No 3, Aug 88 p 194

[Article by Yu Lian 0060 3353, et al., of the Department of Animal Science & Veterinary Medicine, Zhejiang Agricultural University]

[Text of English Abstract] An indirect ELISA has been developed for detection of antibodies against SFV using the lyophilized vaccine prepared from the sucking-rabbits infected with the Chinese strain of lapinized SFV. Horseradish Peroxidase Staphylococcal protein A (PPA) was used in the test instead of horseradish peroxidase anti-swine IgG. A synchronized trial with 73 samples of porcine serum was made and the results of the indirect ELISA were in agreement with that of the rabbit serum neutralization test (P/g0.05), and its sensitivity, specificity, and accuracy were 100 percent, 92.16 percent, and 94.52 percent, respectively. The method developed was employed to determine the SFV antibodies of 1528 serum samples and 36 tonsil extract samples collected from swine, the results were satisfactory in high stability and repeatability.



**Studies on the Capsular Subunit Vaccine Against Fowl Cholera I. Some of Physical and Chemical Properties of the Capsula Antigen of Pasteurella Multocida**

40110017B Tianjin XUMU SHOUYI XUEBAO [ACTA VETERINARIA ET ZOOTECHNICA SINICA] in Chinese No 3, Aug 88 p 200

[Article by Lin Shitang 2651 0013 2768, et al., of the Research Institute of Animal and Veterinary Sciences, Fujian Academy of Agricultural Sciences, Fuzhou]

[Text of English Abstract] After being separated from the cell wall, the capsula of pasteurella multocida had a C spiral structure of blossom or irregular form by electronic microscopy and it was composed of protein 55.5 percent plus or minus 12, carbohydrate 4.7 percent plus

or minus 1.5, phospholipids 10.9 percent plus or minus 2.5, and a little nucleic acids and O-acetyl group, it had sixteen kinds of aminoacids. The molecular weight was  $2.5 \times 10^5$  dalton estimated by SDS-PAGE, the capsula materials were not stable when they were extracted in a liquid state (semi-finished product). The level of protein decreased to 30-50 percent, when it was stored at 0-3° C for 1.5 to 5.0 months. The activity of the antigenic ingredient reduced when it was heated to 100° C for 30 minutes, whereas, it was comparatively stable when stored in a freeze-dried state, it can be stored for a year in a refrigerator at 4-8° C, and 25-31° C for 15 days, and there was a minimum decrease in protein, and the antigenic activity remained good. The results provide a scientific basis for the extraction, use and storage of the subunit vaccine.

**Bai Hua on 'Vicious Cycle' of Chinese History**  
*Hong Kong CHIUSHIH NIENTAI [THE NINETIES]*  
*in Chinese No 226 Nov 88 pp 75-76*

[Article in "Live From Overseas" column dated 7 Oct 88 by Gao Luji 7559 7627 0370: "To Have An Unwise Leader Is Our Greatest Sorrow."]

[Text] Chinese writer Bai Hua who gained international fame for his censored "Unrequited Love" has been invited to the United State this year. At present, he is concentrating on his writing in Iowa.

On 3 October, the "Aihua Society," organized by the Chinese Students' Association of University of California at Berkeley, invited Bai Hua to speak on campus. The speech was entitled "The Present State and the Future of Chinese Literature." When I arrived, a little late, Bai Hua was talking about the Nanjing Massacre.

**"To Have an Unwise Leader Is Our Greatest Sorrow"**

He said, at that time, Nanjing had a defense force two and a half times the size of the Japanese army, and by sheer chance, Tang Shengzhi [0781 3932 2535], a fortune-teller, became the commander-in-chief in Nanjing. But as soon as fighting broke out, he panicked and fled, and the people were left without a leader, and Nanjing was lost. Within 6 weeks, the Japanese took 300,000 lives. Even the Japanese could not believe it. Once, 135 Japanese soldiers even managed to capture 13,000 Chinese soldiers and tied them up, 10 to a bundle, by the river bank and slaughtered them all. Just by sheer number of bodies, these 13,000 men could have overwhelmed the Japanese, but they were full of cowardly hope, and nobody resisted, and in the end they were all killed.

Bai Hua said that this May, a delegation of Chinese writers visited Europe. On one occasion, everybody had a chance to speak for 5 minutes, but they were chastised by an overseas Chinese who pointed out that none of the writers had spoken about the 5,000-year old civilization and China's accomplishments since 1949. Even before these writers arrived home, Chinese leaders had received written reports criticizing the Chinese delegates for being less enlightened than even an overseas Chinese.

Bai Hua said, having an unwise leader is our greatest sorrow. In history, Qu Yuan, Li Bai, Tu Fu, and Yue Fei and others all had felt the same way. Plays about Bao Gong and the punishment of Jing Zhi are perennially popular because only in these stories can the people find sustenance and hope that one day they too will have a wise king.

The Chinese were not exposed to the concepts of democracy, equality, and freedom until a century ago. Extraordinary men like Tan Sitong risked their lives for the cause, trying to rally the people. But the people seemed numb; they had resigned themselves to adversity. When

Qiu Jin, the heroine, was sent to her execution, it was not at all like that in the movies where the people were so sympathetic. Qiu Jin died in the "sorrowful autumn rain and wind" before an ignorant crowd.

Times have been very harsh. Since the beginning of this century, we have gone from the Qing Dynasty to the Republic to the Nationist and finally the Communist rule. Every time we topple a dictator, another dictator takes over.

**Most People Have Turned Into Vegetables**

The Chinese Communist Party was established in the early 20th century. Especially during the 8-year War of Resistance Against Japan, many noble-minded persons have joined the Party. At first, the Party's slogan was "land to the tiller." It was very popular with the peasants; many joined the ranks, and there was no lack of manpower resources. Since 1949, most people, including the intellectuals, have come to think that the Communist Party can do no wrong. They have turned into vegetables: they think that as long as there is sunlight and rainfall, they will thrive.

The literary and art circles' criticism of "The Story of Wuxun" in 1951 actually was a behind-the-scenes struggle for power. The intellectuals, however, accepted their reform meekly, in fear and trepidation. After the 10 years of cultural revolution, there is no more credibility. Some people choose to believe everything; others believe in nothing. The constitution has never really been implemented. The ever-changing policies inspire little confidence. As the saying goes, "one look at the central authority's documents, the provincial and city documents are put aside, and the prefectural and county documents are thrown out."

How many families scattered, how many lives taken, and how many wives and children lost in the anti-right movement in 1957? But it was just a "rectification" in 1979; there were remaining "bona fide rightists," proving that the '57 movement had not been a mistake.

**Dog-Eat-Dog Is the Best Way To Rule**

Ba Jing [1572 6855] suggested building a Cultural Revolution Museum. It was a very good suggestion; unfortunately, it was rejected by the higher authorities. If we had a museum, we could review our long, profound history, just like Europe has preserved the concentration camps in Auschwitz. But if the higher authorities have rejected it, there is very little the people can do. A weakness of the Chinese people is that we do not like to look into the mirror. We are slow to learn. Some things have not changed at all after 5,000 years. The educational standard is low, and therefore the people are ignorant. But an obscurantist policy serves a dictator well. Dog-eat-dog is the best way to rule. Mao Zedong knew it well, and that is why all along he had been long for dogs that would bite other dogs.

In 1981, when Bai Hua was being criticized, a college student went to the Wuhan barracks to see him. Bai Hua was worried that the meeting would hurt the student and refused to see him, but the student promised that he would not utter a word if they met. When he saw Bai Hua, he kept his promise and said nothing; he only quietly laid a rock on top of a piece of paper, on it was the written words, "may you be as strong as a rock." A great poet was moved to tears when Bai Hua told him the story. Yet, when the supreme leaders labelled "Unrequited Love" reactionary, the same poet had only vicious words for Bai Hua, and a well-known playwright said that when he saw the movie, he felt like crashing his head into the screen.

By 1987, there was silence. There were private discussions but no public outcry. Because there was lingering fear, the people were stricken with osteomalacia.

Efficiency is low in the large enterprises, and dejected workers go on strike; there is an acute shortage of goods and materials, and taking the back door has become the practice; bureaucrats act like lords, and corruption is everywhere; stores offer the worst service anywhere in the world. The people are losing heart as fast as the spread of hepatitis in Shanghai.

The high rate of taxation has forced the individual units to evade taxes. Their success story in making money is the story of their tax evasion. As a result, people are not willing to expand reproduction; instead, they squander their money and lead a life of luxury and dissipation. China is paying good money to keep people who do more harm than good. All these years, not a single organization has really been streamlined. Ninety percent of the peasants do not realize that they have rights. They do not want democracy, because they think the cultural revolution was great democracy. A former serf owner from Tibet has gone to the national institute and has turned over a new leaf, but he said, today, the cadres are beginning to resemble serf owners.

The vicious cycle of Chinese history continues. China has the least forest land per capita of population in the world, but we are still cutting down trees. The source of the Yangtze River is devoid of vegetation. The Yangtze has become another Yellow River. Local and county forestry departments are super-governments. They have ruined nature and damaged the ecology everywhere. According to newspaper reports, China should have the largest afforested area in the world, but that is just on paper. The Japanese use a lot of wood, but they never

touch any of their own trees; almost all of the lumber are imported. A nation which forsakes its future is an inferior nation. Bai Hua said, in the 1950's, there were song birds and wild flowers everywhere in Yunnan and across the southwest, and virgin scenery like those in Jiuzhaigou could be found everywhere. Thirty years later, alarmingly, everywhere a scene of devastation meets the eye.

Throughout the ages, all the different movements in China served only one purpose: they tested the people's loyalty. At present, the educational standard of all the people is too low; yet, some people object to raising the people's educational standard. On the road to a bright future, money does not solve all problems.

Is there hope for China? Bai Hua said, a nation without hope is a nation doomed. China must cast off her burden and take a big step forward; however, the progress has been slow, the burden is too heavy, and the wheels that move the country forward are not smooth. But the nation must clearly understand that China needs a voice. People who speak up are the courageous. Those who cannot find their voice momentarily should at least maintain silence, but never be a dog that bites other dogs. Those who can speak up should be more sympathetic and helpful and not overly critical. As Ba Jin said, Chinese writers have suffered enough; they should be encouraged more, persecuted less.

#### The Audience Was Anguished

After the speech, the audience was left with a heavy heart. He has painted a dreadful picture of China's situation today, but you have to admit that he has been so truthful. Bai Hua said, on some issues, his views differ from others. For example, Chen Yingzhen [7115 2503 4176] says that at least communism is a fine ideal; and Liu Bingyan [0491 6333 7159] says that today, as long as there is public opinion in China, the Party can be effectively supervised. Liu Bingyan is ambitious; he even wants to run a people's newspaper. In his response to questions from the audience, Bai Hua lashed out mercilessly at the bureaucrats. He said, Liu Baiyu [0491 4101 5038] is a writer of prose, and his prose is put together with descriptive words, and Chen Yi [7115 3085] is and will always be a proper leftist.

At present, Bai Hua continues to create and speaks his mind. When he speaks, his voice may be deafening but the audience cannot but be filled with worry and anxiety for him.

## NORTHEAST REGION

**Heilongjiang Statistics on Students, Teachers**  
*SK1512084188 Harbin HEILONGJIANG RIBAO*  
*in Chinese 29 Nov 88 p 1*

[Text] In Heilongjiang, the number of students at agricultural and vocational middle schools was 48,000 in 1980, 82,000 in 1981, 140,000 in 1982, 144,000 in 1983, 133,000 in 1984, 141,000 in 1985, 155,000 in 1986, and 156,000 in 1987. The number of students at secondary specialized schools was 36,100 in 1978, 42,200 in 1979,

41,200 in 1980, 38,900 in 1981, 43,100 in 1982, 46,700 in 1983, 52,000 in 1984, 59,700 in 1985, 58,600 in 1986, and 61,000 in 1987. The number of students in schools of higher learning was 33,500 in 1978, 37,800 in 1979, 41,800 in 1980, 49,600 in 1981, 43,100 in 1982, 45,300 in 1983, 53,200 in 1984, 65,900 in 1985, 73,600 in 1986, and 75,000 in 1987. Full-time teachers of agricultural and vocational schools totaled 12,300 in 1987 as against 2,600 in 1980; those of secondary specialized schools totaled 6,400 in 1987 as against 4,200 in 1978; and those of the schools of higher learning totaled 15,100 in 1987 as against 8,400 in 1978.



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